CHAPTER

4

The Revenue Outlook

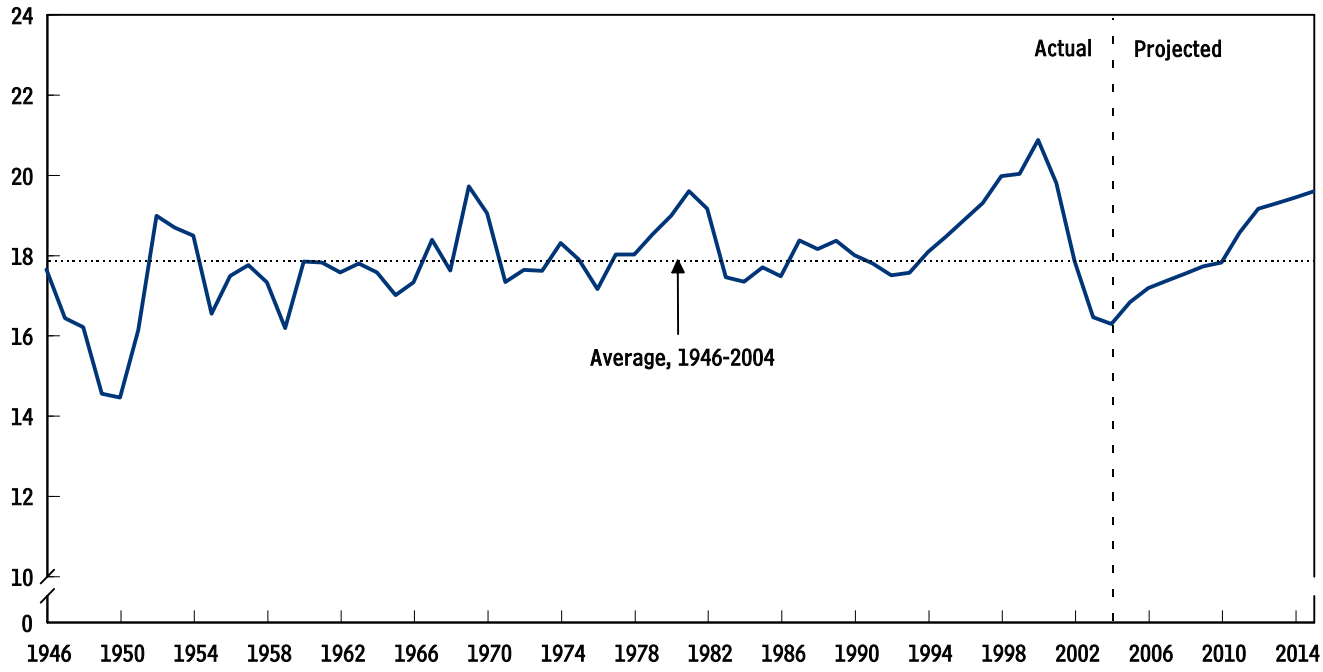
The Congressional Budget Office estimates that federal revenues will reach $2.1 trillion in 2005 if current policies remain the same. That amount is about 9 percent (or $177 billion) higher than revenues in 2004. As a share of gross domestic product, revenues are projected to rise from 16.3 percent in 2004 to 16.8 percent this year, below the postwar average of 17.9 percent but the first increase since 2000 (see Figure 4-1).

Over the following 10 years through 2015, receipts are expected to continue increasing, growing faster than GDP in every year (see Figure 4-2). That increase is driven partly by the structure of the tax system, which causes revenues to claim a higher fraction of income every year as income grows. An even larger part of the rise is concentrated in specific years, with the biggest jump in 2011, when various taxes are scheduled to increase under current law. By 2015, revenues are projected to reach 19.6 percent of GDP.

Figure 4-1.

Total Revenues as a Share of GDP, 1946 to 2015

(Percentage of GDP)

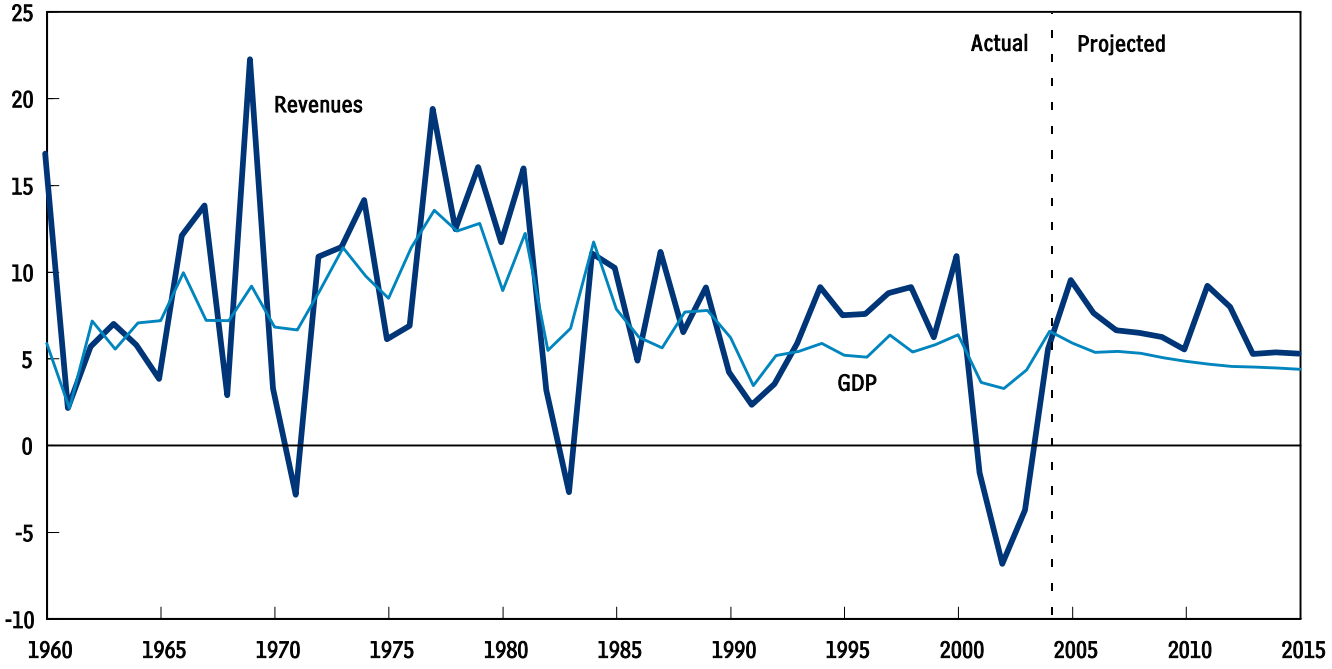


Source: Congressional Budget Office.

Figure 4-2.

Annual Growth of Federal Revenues and GDP, 1960 to 2015

(Percentage change from previous year)



Source: Congressional Budget Office.

CBO's current revenue projections are, on average, very close to those it published in September 2004. CBO is now projecting a total of $209 billion less in receipts for the 2005-2014 period—less than 1 percent of its projections last summer. Roughly three-fifths of that reduction stems from new legislation.

Revenues by Source

Federal revenues derive from various sources: individual income taxes, social insurance (payroll) taxes, corporate income taxes, excise taxes, estate and gift taxes, customs duties, and miscellaneous receipts. In recent years, individual income taxes have typically produced nearly half of all revenues and claimed between 8 percent and 10 percent of GDP (see Figure 4-3). Social insurance taxes (mainly for Social Security and Medicare's Hospital Insurance) are the second largest source of receipts. They generate approximately a third of federal revenues and amount to a little less than 7 percent of GDP. Corporate income taxes contribute about one-tenth of overall revenues and have usually represented between 1.5 percent and 2 percent of GDP. Revenues from other taxes, duties, and miscellaneous receipts (including profits from the Federal Reserve System) make up the balance and together constitute about 1.5 percent of GDP.

During the post-World War II period, corporate income and excise taxes have declined in importance and payroll taxes have become more significant. Since the early 1950s, corporate income and excise taxes together have declined from nearly half of receipts to less than 15 percent. Over the same period, payroll taxes have increased from slightly more than 10 percent of revenues to more than one-third.

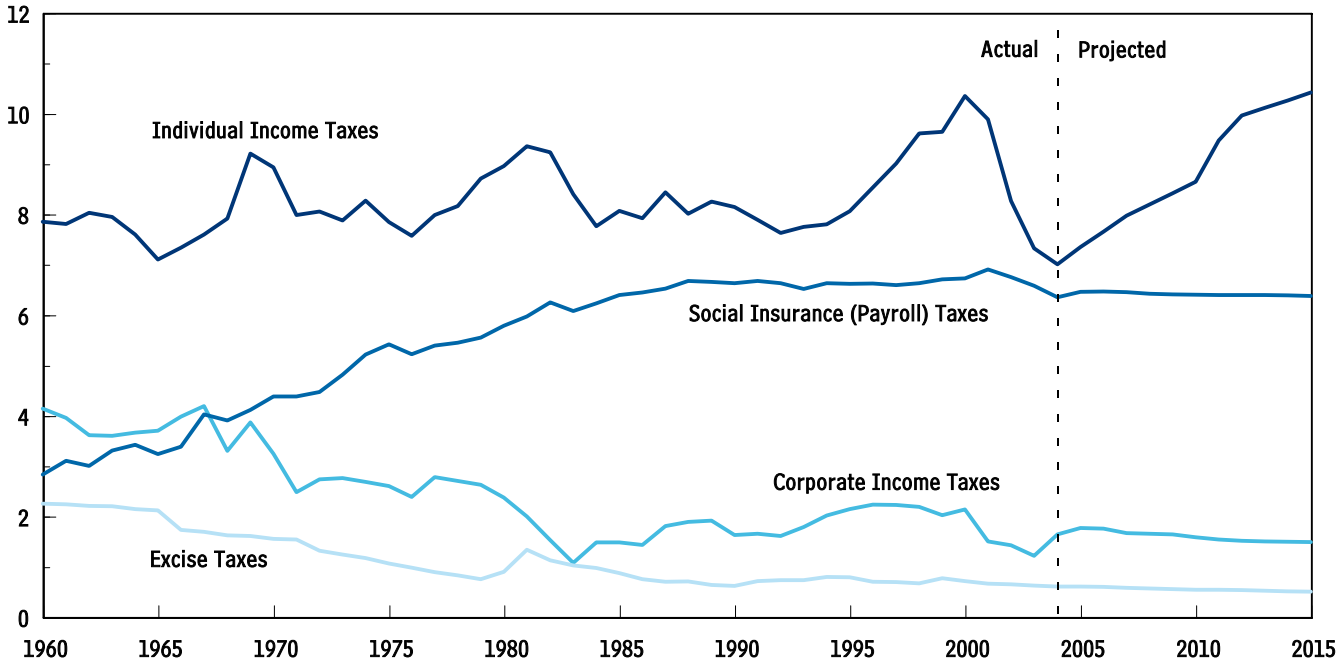
In 2004, receipts of individual income taxes equaled 7 percent of GDP—1 percentage point below their postwar average of 8 percent. The level of those receipts in 2004 was lower as a percentage of GDP than in any year since 1951. The level projected for 2005, although higher, is still unusually low by postwar standards.

Over the coming decade, the path of total receipts will be primarily driven by individual income taxes. Receipts from those taxes, measured relative to GDP, are projected to rise by 3.4 percentage points from 2004 to 2015, more than accounting for the projected increase of 3.3

Figure 4-3.

Revenues, by Source, as a Share of GDP, 1960 to 2015

(Percentage of GDP)



Source: Congressional Budget Office.

percentage points for total receipts relative to GDP over that period.

About half of the growth in individual receipts will result from changes in tax law including a lower alternative minimum tax (AMT) exemption beginning in 2006; higher tax rates on dividends and capital gains starting in 2009; and an increase in statutory tax rates, reduction in child credit amounts, contraction of joint filers' tax brackets, and other changes in 2011 that will increase taxes. The other half of the growth results from the structure of the tax code, which causes tax rates effectively to rise as income grows, and from other factors, such as a rapid increase in distributions from tax-deferred retirement accounts.

Other revenue sources will change somewhat during the baseline period but with little net effect over that decade. Corporate income taxes are also expected to grow in importance for the next few years as the investment incentives enacted in the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) and the Job Creation and Worker Assistance Act of 2002 (JCWAA) expire. But after rising to 1.8 percent of GDP in 2005 and 2006, corporate income taxes are expected to slip back to their current levels and then below by 2009. Estate and gift taxes are expected to drop to historically low levels relative to GDP in 2010 and 2011 as a result of the phaseout of the estate tax and then regain their previous importance after the tax is reinstated in 2011. Excise taxes will continue their slow decline in significance as a revenue source.

Those changes—especially the ones associated with the individual income tax—will markedly increase the total tax revenues collected by the federal government. From the lowest ratio of revenues to GDP in nearly 50 years—16.3 percent in 2004—receipts in CBO's projection rise to 19.6 percent of GDP in 2015, a level matched or exceeded only a half-dozen times since 1945.

Revenue Projections in Detail

Individual Income Taxes

Individual income taxes account for most of the projected increase in revenues as a share of GDP over the next 10

Table 4-1.

CBO's Projections of Revenues

	Actual 2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total, 2006-2010	Total, 2006-2015
							In Billions of Dollars							
Individual Income Taxes	809	899	986	1,082	1,172	1,265	1,362	1,561	1,718	1,822	1,932	2,048	5,867	14,947
Corporate Income Taxes	189	216	226	226	237	246	249	254	261	270	281	292	1,184	2,542
Social Insurance Taxes	733	790	833	876	918	962	1,009	1,054	1,102	1,151	1,202	1,253	4,598	10,360
Excise Taxes	70	74	77	79	81	83	85	89	92	94	96	98	405	874
Estate and Gift Taxes	25	24	27	25	26	27	21	19	43	46	52	58	126	344
Customs Duties	21	21	23	25	27	28	29	30	31	33	35	37	133	299
Miscellaneous Receipts	33	34	39	44	47	50	52	54	56	58	60	62	231	521
Total	**1,880**	**2,057**	**2,212**	**2,357**	**2,508**	**2,662**	**2,806**	**3,062**	**3,303**	**3,474**	**3,657**	**3,847**	**12,545**	**29,888**
On-budget	1,345	1,484	1,607	1,719	1,836	1,956	2,066	2,288	2,494	2,629	2,775	2,928	9,184	22,297
Off-budget[a]	535	573	605	638	672	706	740	774	809	845	882	919	3,361	7,591
Memorandum:														
Gross Domestic Product	11,553	12,233	12,888	13,586	14,307	15,029	15,757	16,494	17,245	18,023	18,826	19,652	71,566	161,806
							As a Percentage of GDP							
Individual Income Taxes	7.0	7.3	7.7	8.0	8.2	8.4	8.6	9.5	10.0	10.1	10.3	10.4	8.2	9.2
Corporate Income Taxes	1.6	1.8	1.8	1.7	1.7	1.6	1.6	1.5	1.5	1.5	1.5	1.5	1.7	1.6
Social Insurance Taxes	6.3	6.5	6.5	6.4	6.4	6.4	6.4	6.4	6.4	6.4	6.4	6.4	6.4	6.4
Excise Taxes	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.5
Estate and Gift Taxes	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.2	0.3	0.3	0.3	0.2	0.2
Customs Duties	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Miscellaneous Receipts	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Total	**16.3**	**16.8**	**17.2**	**17.3**	**17.5**	**17.7**	**17.8**	**18.6**	**19.2**	**19.3**	**19.4**	**19.6**	**17.5**	**18.5**
On-budget	11.6	12.1	12.5	12.7	12.8	13.0	13.1	13.9	14.5	14.6	14.7	14.9	12.8	13.8
Off-budget[a]	4.6	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7

Source: Congressional Budget Office.

a. Social Security.

years (see Table 4-1). That is not surprising because they represent about half of all federal receipts and they were responsible for most of the movement in total receipts relative to the economy—first up, then down—over the past decade. Individual income tax receipts more than doubled in nominal dollars between 1992 and 2000, recording an average annual growth rate of nearly 10 percent and reaching a historical peak of 10.3 percent of GDP. Since then, individual income tax receipts have fallen as a share of GDP for four consecutive years, reaching 7.0 percent in 2004, their lowest level since 1951. The downturn in receipts resulted in large part from the substantial stock market decline of 2000 through 2002 and the 2001 recession; it was reinforced by the tax cuts enacted in several stages between 2001 and 2004. After the recession ended in late 2001, the slow pace of recovery in personal income held down growth in tax receipts. In 2004, receipts grew in dollar terms for the first time since 2000, but they remained nearly 20 percent below their dollar peak in 2000.

Because some of the factors that weakened revenues over the past four years are temporary, and because the design of the income tax system causes revenues to grow more strongly than output, CBO projects that individual income tax receipts will increase relative to GDP starting in 2005 and continue throughout the next 10 years. By 2008, receipts are projected to rise above their post-World War II average of 8.0 percent of GDP. The rise will become especially pronounced after 2010, following

Table 4-2.

CBO's Projections of Individual Income Tax Receipts and the NIPA Tax Base

	Actual 2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total, 2006-2010	Total, 2006-2015
Individual Income Tax Receipts														
In billions of dollars	809	899	986	1,082	1,172	1,265	1,362	1,561	1,718	1,822	1,932	2,048	5,867	14,947
As a percentage of GDP	7.0	7.3	7.7	8.0	8.2	8.4	8.6	9.5	10.0	10.1	10.3	10.4	n.a.	n.a.
Annual growth rate	1.9	11.1	9.8	9.8	8.3	7.9	7.6	14.6	10.0	6.1	6.0	6.0	n.a.	n.a.
Taxable Personal Income														
In billions of dollars	7,676	8,132	8,610	9,128	9,646	10,132	10,625	11,126	11,633	12,152	12,689	13,243	48,141	108,984
As a percentage of GDP	66.4	66.5	66.8	67.2	67.4	67.4	67.4	67.5	67.5	67.4	67.4	67.4	n.a.	n.a.
Annual growth rate	4.6	5.9	5.9	6.0	5.7	5.0	4.9	4.7	4.6	4.5	4.4	4.4	n.a.	n.a.
Individual Receipts as a Percentage of Taxable Personal Income	10.5	11.0	11.5	11.9	12.1	12.5	12.8	14.0	14.8	15.0	15.2	15.5	n.a.	n.a.

Source: Congressional Budget Office.

Notes: The tax base in this table (taxable personal income) reflects income as measured by the national income and product accounts (NIPAs) rather than as reported on tax returns. An important difference, therefore, is that it excludes capital gains realizations.

n.a. = not applicable.

scheduled increases in statutory tax rates along with other changes in tax law. Individual income tax receipts are projected to reach 10.0 percent of GDP in 2012 and to hit a new historical peak of 10.4 percent of GDP in 2015.

Projecting Receipts in 2005. CBO projects that individual income tax receipts will grow by a strong 11 percent in 2005 (see Table 4-2). That growth in receipts is partly driven by CBO's projection that taxable personal income—as measured by the national income and product accounts—will grow by 5.9 percent in 2005, the largest increase since 2000. (Taxable personal income includes wages and salaries, dividends, interest, rent, and proprietors' income. See Box 4-1 for a description of taxable personal income and other components of various tax bases.) Although growth in receipts of individual income taxes typically exceeds growth in personal income by roughly a percentage point in an expanding economy (the phenomenon of "real bracket creep" described below), receipts growth in 2005 is expected to substantially outstrip growth in taxable personal income by more than 5 percentage points. That growth is expected to occur because of past legislative changes and strong increases in profits of S corporations, personal realizations of capital gains, and pension distributions.[1]

The implementation and expiration of tax provisions enacted in JCWAA and JGTRRA are projected to contribute about $30 billion, or 3.5 percentage points, to revenue growth in 2005. First, the partial-expensing provision, which was first enacted in JCWAA in 2002 and then expanded a year later in JGTRRA, expired at the end of calendar year 2004. The provision allowed businesses to reduce taxes by taking an additional first-year depreciation deduction of 50 percent of qualifying fixed investments, with the rest of the investment depreciated under normal rules, effectively backloading tax liability. As a result, taxes generated by business activity were reduced in 2004 and increased in 2005. Although most of the provision's effect is on corporate receipts, a substantial share of qualifying investments are made by S corporations, partnerships, and sole proprietorships, which are all taxed under the individual income tax.

1. S corporations are domestically owned corporations with no more than 100 shareholders that elect to be taxed like partnerships. An S corporation is exempt from the corporate income tax, but its owners pay income taxes on all of the firm's income, even if the income is retained by the firm.

Box 4-1.

Tax Bases and Tax Liability

Tax receipts vary with economic activity, but they do not move in lockstep with gross domestic product (GDP), or output. Although the bases for individual and corporate income taxes and for social insurance taxes are related to GDP, they differ from it in a number of important respects, which means that they sometimes grow faster and sometimes slower than output. As a result, the ratio of receipts to GDP may change even if tax laws remain the same.

The Individual Income Tax Base

The first approximation of the individual income tax base includes dividends, interest, wages and salaries, rent, and proprietors' income. That measure, referred to here as **taxable personal income**, excludes depreciation, taxes on businesses (such as corporate income and excise taxes), retained corporate profits, and employees' fringe benefits that are not received by individuals in taxable form.

That income measure must be narrowed further to obtain the tax base of the income tax. Some of that income accrues to tax-exempt entities such as hospitals, schools, cultural institutions, and foundations; some is earned in a form that is tax-exempt, such as income from state and local bonds; and some is tax-deferred, such as income earned in retirement accounts, on which tax is paid not when the income is accrued but when the person retires and begins to draw down the account. Also, personal interest and rental income contain large components of imputed income—income that is not earned in a cash transaction, including personal earnings within pension funds and life insurance policies and income from owner-occupied housing. Such income is not taxable. Consequently, a substantial amount of interest, dividend, and rental income is excluded from the taxable base of the income tax.

Further adjustments, both additions and subtractions, must be made to derive taxpayers' **adjusted gross income**, or AGI. Capital gains realizations—the increase in the value of assets between the time they are purchased and sold—are added to taxable personal income. Contributions from income made to tax-deductible individual retirement accounts and 401(k) plans are subtracted, but distributions to retirees from those plans are added. A variety of other, smaller adjustments must be made to reflect the various adjustments that taxpayers make.

Exemptions and **deductions** are subtracted from AGI to yield **taxable income**, to which progressive tax rates—rates that rise as income rises—are applied. (Those rates are known as statutory marginal tax rates; the range of taxable income over which a statutory marginal rate applies is known as an income tax bracket, of which there are now six.) The tax that results from applying statutory marginal rates to taxable income may then be subject to further adjustments in the form of **credits**, such as the child tax credit for taxpayers with children under age 17, which reduce taxpayers' **tax liability** (the amount they owe). An important factor in calculating individual tax liability is the **alternative minimum tax** (AMT), which requires some taxpayers to calculate their taxes under a more limited set of exemptions, deductions, and credits. Taxpayers then pay the higher of the AMT or the regular tax. The ratio of tax liability to AGI is the **effective tax rate on AGI**.

Second, the timing of the cuts in individual income taxes enacted in JGTRRA caused a bunching of revenue losses in 2004. JGTRRA was enacted in May 2003, and its provisions were generally made effective as of January 1 of that year. Reduced withholding rates consistent with the new law went into effect shortly after enactment, but the new rates applied only to income earned after the change. Taxpayers who earned income before the withholding rates were changed saw a reduction in their tax liabilities that was not matched by reductions in withholding (unless they acted on their own to reduce their withholding). It appears that relatively few taxpayers took such actions,

Box 4-1.
Continued

The Social Insurance Tax Base

Social insurance taxes, the second largest source of receipts, use payroll as their base. Those taxes largely fund Social Security and the Hospital Insurance program (Part A of Medicare). Social Security taxes are imposed as a percentage of pay up to a **taxable maximum** that is indexed for the growth of wages in the economy. Hospital Insurance taxes are not subject to a taxable maximum.

The Corporate Income Tax Base

Corporate profits are the tax base of the corporate income tax. Profits are measured in different ways in the national income and product accounts. Several adjustments can be made to the reported profit measures to better approximate what is taxed by the corporate income tax.

First, different depreciation measures cause important differences in the measurement of corporate profits. **Economic profits** are measured on the basis of economic depreciation—the dollar value of productive capital assets that is estimated to have been used up in the production process. For tax purposes, however, corporations calculate **book profits**, which are based on **book**, or **tax**, **depreciation**. Book depreciation is typically more front-loaded than economic depreciation; that is, the capital is assumed to decline in value at a faster rate than the best estimates of how fast its value actually falls, allowing firms to report taxable profits that are smaller than economic profits.

Second, the profits of the Federal Reserve System are included in economic and book profits, but they are not taxed under the corporate income tax (they are instead remitted to the Treasury as miscellaneous receipts).

Third, economic and book profits both include certain foreign-source income of U.S. multinational corporations. Foreign-source income is taxed at very low effective rates in part because it is generally taxable only when it is "repatriated," or returned, to the U.S. parent company. In addition, it generates little revenue because corporations can offset their domestic tax by the amount of foreign taxes paid on that income, within limits.

Several other, smaller differences exist between book profits and corporations' calculation of their taxable income for tax purposes. If a corporation's taxable income is negative (that is, if the firm loses money), its loss (within limits) may be carried backward or forward to be netted against previous or future taxable income and thus reduce the firm's taxes in those other years. If the loss is carried forward, it is called a "carryforward deduction." A statutory tax rate is applied to the corporation's taxable income to determine its tax liability. A number of credits (such as the credit for taxes imposed by other countries on the foreign-source income included in a firm's taxable profits) may further pare that liability. The ratio of total domestic corporate taxes to total taxable corporate income is the **average tax rate**.

Despite many adjustments that must be made to calculate the actual tax bases, a ready approximation is the sum of wages and salaries, nonwage personal income, and corporate book profits. Those items pick up most of the bases of the individual income, corporate income, and social insurance taxes and therefore constitute the bulk of taxed income.

so when taxpayers filed their tax returns in the spring of 2004, refunds were boosted and final payments were smaller than would otherwise have been the case. That overwithholding effect was moderated by advance refunds of the increased child tax credit, which were distributed in the summer of 2003 (a phenomenon not repeated in 2004). Nonetheless, the net effect is believed to be relatively low receipts in 2004, causing this year's growth to be higher than it otherwise would be.

CBO projects that profits of S corporations are growing substantially faster than taxable personal income as mea-

sured in the national income accounts. That growth, coupled with similarly more rapid growth in capital gains realizations by individuals and distributions from pensions and individual retirement accounts (IRAs), will boost receipts in 2005 by about $15 billion, or almost 2 percentage points, relative to what receipts would be if those types of income grew at the same rate as taxable personal income. CBO projects that in tax year 2004, S corporation profits, capital gains realizations, and retirement distributions all increased in excess of 10 percent, boosting tax liabilities in that year and contributing to a strong increase in final payments that is expected when tax returns for that year are filed in 2005.

Projected growth in individual income tax receipts is reduced by about $10 billion, or more than 1 percentage point, to reflect changes to the official accounting for individual income and social insurance receipts for 2004. When payroll tax receipts are remitted to the Treasury, they are not distinguished from income tax withholding. The Treasury estimates the appropriate division and corrects any resulting error in later years. In 2004, the Treasury lowered social insurance receipts in the official data by about $10 billion and raised individual income taxes by the same amount to correct previous years' misestimates.[2] In producing its estimate for the level of receipts in 2005, CBO estimates actual receipts for 2004 before the Treasury makes its final determination. In CBO's history and forecast for social insurance receipts, the opposite effect occurs, so overall receipts are not affected.[3]

Projecting Receipts Beyond 2005. From 2006 through 2015, CBO's projected pattern of revenues reflects steady growth in personal income punctuated by changes in tax law scheduled to take place in specific years. Wage and salary income is expected to rise slightly faster than GDP through 2009, with its growth held down by an increased share of overall labor compensation expected to be paid in the form of health insurance benefits and contributions to pension plans. Taxable personal income is also expected to grow slightly faster than GDP in each year through 2012. Receipts are expected to continue to rise faster than either GDP or taxable personal income in every year because of three major factors.

First, changes in tax law—principally those enacted in the Economic Growth and Tax Relief Reconciliation Act of 2001(EGTRRA) and JGTRRA—will alter the pattern of growth in receipts. As a result of legislation enacted in 2004, fewer provisions of tax law are now scheduled to change in the future than was the case under prior law. What remain of the scheduled changes are principally ones that cause taxes to increase. The alternative minimum tax (AMT) exemption is reduced in tax year 2006 from the value it has in tax years 2003 through 2005. That causes a significant jump in projected taxes in fiscal years 2006 and 2007. Tax rates on dividends and capital gains rise in 2009, returning to the rates that existed before 2003 and thus increasing receipts. And most important, taxes increase sharply in 2011 when various changes in law are scheduled to occur: statutory tax rates rise, the child tax credit amount declines, joint filers' tax brackets contract, and other changes take place. Only the phaseout of restrictions on itemized deductions and personal exemptions for high-income taxpayers during tax years 2006 to 2010 tends to reduce the growth of individual income tax receipts.

Second, over the 10-year period, several inherent characteristics of the tax system will boost effective tax rates, thereby increasing the receipts generated by the economy. The rise in the effective rate is generated in part by the phenomenon known as real bracket creep, in which the overall growth of real income causes more income to be taxed in higher tax brackets. In addition, the AMT—which is not indexed for inflation—will affect an increasing number of taxpayers and growing amounts of income in future years. (For a more detailed description of the increasing significance of the AMT in CBO's revenue projections, see Box 4-2 on page 86.) Also pushing up the effective rate are taxable distributions from tax-deferred retirement accounts, such as individual retirement accounts and 401(k) plans, which are expected to increase as the population ages. Contributions to those accounts were exempt from taxation when they were made, thus reducing taxable income in earlier years. Now, as more retirees take distributions from those accounts, the accu-

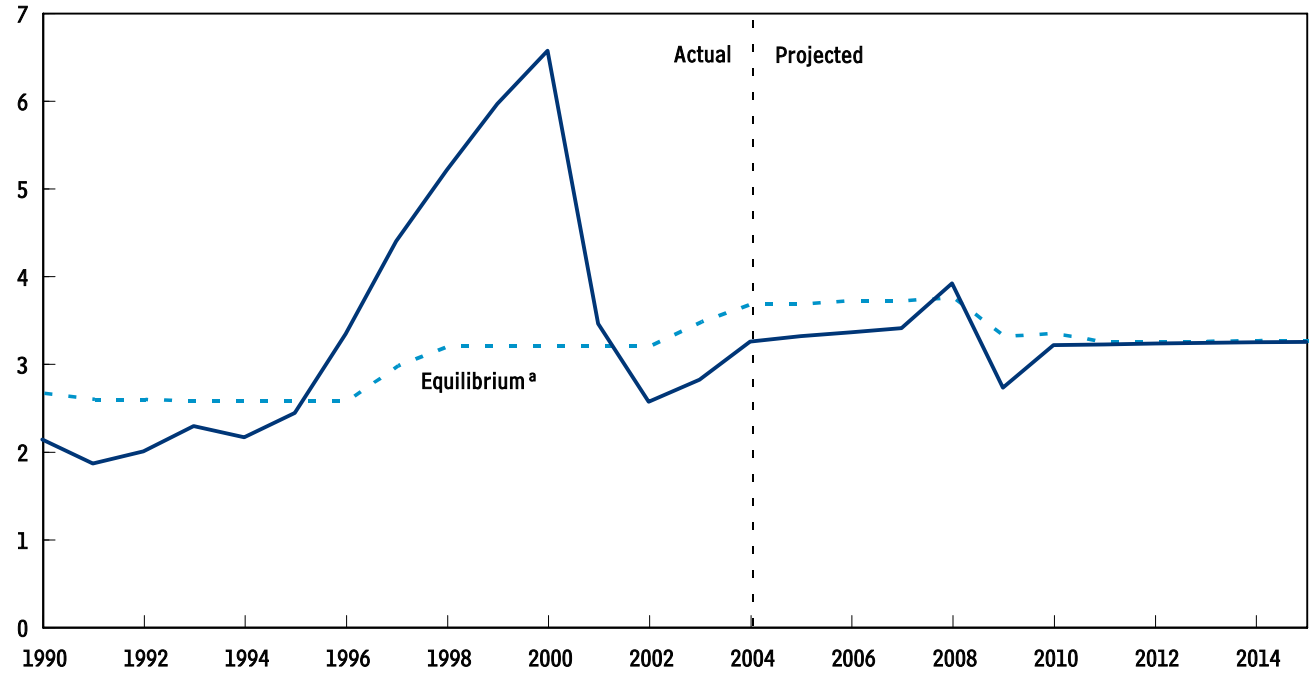
2. The Treasury Department uses that procedure rather than revising the official measures of receipts for the years before 2004 to which the misestimates applied.

3. CBO reports the official historical data in its tables, thus showing a reduced growth rate for receipts of individual income taxes and an increased growth rate for receipts of social insurance taxes in 2005. The growth rate of total receipts for 2005 is not affected.

Figure 4-4.

Capital Gains Realizations as a Share of GDP, Calendar Years 1990 to 2015

(Percentage of GDP)



Source: Congressional Budget Office.

a. The equilibrium relationship of capital gains realizations to GDP is measured as the average ratio of gains to GDP from 1954 to 2002, adjusted for differences between each year's tax rate on capital gains and the average rate over the period. A lower tax rate on capital gains corresponds to a higher equilibrium relationship.

mulations become taxable, thereby increasing tax receipts relative to GDP. [4]

Finally, CBO projects that realizations of capital gains will exert a positive effect on receipts relative to income (see Table 4-3). According to CBO's forecast for 2004, capital gains have not quite recovered to their average level relative to the size of the economy after their plunge between 2000 and 2002. CBO assumes that capital gains will tend to return to a level consistent with their historical relationship to GDP, as they have in the past. As a result, CBO's projection of gains grows moderately faster than GDP through 2007 as gains approach their average, or equilibrium (see Figure 4-4). Receipts grow in step with gains. The scheduled return to higher capital gains tax rates in 2009 is likely to encourage taxpayers to speed up the sale of assets with gains from that year to late 2008 and depress realizations thereafter. CBO projects that by 2012, realizations of capital gains will have roughly reached their equilibrium relative to output and then grow with output through 2015. Overall, the positive effect of capital gains on projected revenue growth over the next decade is modest—much less than their significant contributions to receipts in recent years.

Changes Since September 2004. Compared with the projections it made last September, CBO has reduced its projection of individual income tax receipts by $24 billion for 2005 and by an additional $160 billion for the 2006-2014 period. Legislative changes, mainly from enactment of the Working Families Tax Relief Act of 2004 (WFTRA), caused CBO to reduce its projection of revenues by $126 billion over the full 10-year period, with $103 billion of that amount occurring for 2005 through 2008. CBO reduced its projection of revenues by $11 billion for 2005 through 2007 as a result of slightly lower projected growth in the near term in GDP and personal

4. See Congressional Budget Office, *Tax-Deferred Retirement Savings in Long-Term Revenue Projections* (May 2004).

Table 4-3.

Actual and Projected Capital Gains Realizations and Taxes

	Capital Gains Realizations[a]		Capital Gains Tax Liabilities[a]		Capital Gains Tax Receipts[b]		Capital Gains Tax Receipts as a Percentage of Individual Income Tax Receipts
	In Billions of Dollars	Percentage Change from Previous Year	In Billions of Dollars	Percentage Change from Previous Year	In Billions of Dollars	Percentage Change from Previous Year	
1990	124	-20	28	-21	32	-14	6.8
1991	112	-10	25	-11	27	-17	5.7
1992	127	14	29	16	27	1	5.6
1993	152	20	36	25	32	20	6.3
1994	153	*	36	*	36	12	6.7
1995	180	18	44	22	40	10	6.8
1996	261	45	66	50	54	36	8.3
1997	365	40	79	19	72	33	9.8
1998	455	25	89	12	84	16	10.1
1999	553	22	112	26	99	19	11.3
2000	644	16	127	14	119	20	11.8
2001	349	-46	66	-48	100	-16	10.0
2002	269	-23	49	-26	58	-41	6.8
2003	310	15	47	-4	51	-13	6.4
2004	381	23	54	14	48	-7	5.9
2005	410	8	58	8	56	17	6.2
2006	438	7	63	8	60	8	6.1
2007	468	7	67	7	65	7	6.0
2008	567	21	81	20	69	6	5.9
2009	414	-27	74	-8	82	20	6.5
2010	511	24	95	28	84	2	6.1
2011	537	5	100	5	97	16	6.2
2012	562	5	104	5	102	5	5.9
2013	589	5	109	5	106	5	5.8
2014	617	5	114	5	111	5	5.8
2015	645	5	120	5	117	5	5.7

Source: Congressional Budget Office.

Notes: Capital gains realizations represent net positive long-term gains. Data for realizations and liabilities after 2000 and data for tax receipts in all years are estimated or projected by CBO. Data on realizations and liabilities before 2001 are estimated by the Treasury Department.

*= less than 0.5 percent.

a. Calendar year basis.

b. Fiscal year basis. This measure is CBO's estimate of when tax liabilities are paid to the Treasury.

Table 4-4.

CBO's Projections of Social Insurance Tax Receipts and the Social Insurance Tax Base

	Actual 2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total, 2006-2010	Total, 2006-2015
Social Insurance Tax Receipts														
In billions of dollars	733	790	833	876	918	962	1,009	1,054	1,102	1,151	1,202	1,253	4,598	10,360
As a percentage of GDP	6.3	6.5	6.5	6.4	6.4	6.4	6.4	6.4	6.4	6.4	6.4	6.4	n.a.	n.a.
Annual growth rate	2.9	7.7	5.5	5.1	4.8	4.8	4.8	4.5	4.6	4.4	4.4	4.2	n.a.	n.a.
Wages and Salaries														
In billions of dollars	5,279	5,584	5,900	6,225	6,562	6,898	7,233	7,570	7,912	8,265	8,629	9,002	32,818	74,197
As a percentage of GDP	45.7	45.7	45.8	45.8	45.9	45.9	45.9	45.9	45.9	45.9	45.8	45.8	n.a.	n.a.
Annual growth rate	4.5	5.8	5.6	5.5	5.4	5.1	4.9	4.7	4.5	4.5	4.4	4.3	n.a.	n.a.
Social Insurance Tax Receipts as a Percentage of Wages and Salaries	13.9	14.1	14.1	14.1	14.0	14.0	13.9	13.9	13.9	13.9	13.9	13.9	n.a.	n.a.

Source: Congressional Budget Office.

Notes: The tax base in this table (wages and salaries) reflects income as measured by the national income and product accounts rather than as reported on tax returns.

n.a. = not applicable.

income, and increased its projection of receipts by $119 billion for the 2008-2014 period as assumed faster GDP growth eventually pushes personal income above the amounts projected in September. In addition, CBO raised its projection of receipts by $6 billion for 2005 and reduced its projection by $171 billion for the 2006-2014 period as a result of technical factors that affect the revenue yield for a given economic projection of income, with $159 billion of that reduction occurring after 2009.

The downward technical revisions in the second half of the projection period reflect new information from tax returns and new estimates of the effects of asset accumulations in IRAs and 401(k)s. Individual income tax returns filed for tax year 2002 indicate that personal income, especially wages and salaries and interest income, was lower than CBO had expected on the basis of growth in comparable measures from the national income and product accounts. CBO has incorporated a portion of that weakness into its long-term projection by reducing taxable income relative to comparable measures in the economic projection. In addition, CBO has reduced its projection of the share of overall interest and dividend income that is earned in taxable accounts.

Those lower estimates are considered to be more consistent with CBO's projection for earnings in tax-deferred 401(k) and IRA accounts, which are expected to accumulate rapidly over the projection period. Total revenue reductions from the new tax return data and new estimates of the effects of asset accumulation are partially offset through 2009 by reductions in the estimated loss in revenues from the reduced rates of taxation on dividends. Those reduced rates were enacted in JGTRRA and apply through December 31, 2008.

Social Insurance Taxes

In CBO's projections, revenues from social insurance taxes claim a roughly constant share of GDP, remaining between 6.4 percent and 6.5 percent of GDP from 2005 through 2015 (see Table 4-4). In relation to wages and salaries—the approximate base of those payroll taxes—revenues are projected to decline somewhat, from 14.1 percent in 2005 to 13.9 percent by 2015, as a result of relatively slower growth in receipts from unemployment taxes, declines in the share of earnings below the taxable maximum amount for Social Security, and declines in revenues for other federal retirement programs.

The largest components of payroll tax receipts are taxes for Social Security (called Old-Age, Survivors, and Disability Insurance, or OASDI) and Medicare's Hospital Insurance (HI). A small share of social insurance tax revenues comes from unemployment insurance taxes and

Box 4-2.

The Growing Significance of the Alternative Minimum Tax in CBO's Projections

With each passing year, the alternative minimum tax (AMT) plays a larger role in the Congressional Budget Office's (CBO's) revenue projections. Revenue effects from recent changes in tax law combined with the growing number of taxpayers qualifying for the AMT have enhanced the AMT's contribution to overall revenue collection. Additional revenue from the AMT is one reason that CBO projects receipts to grow relative to gross domestic product (GDP) over the next 10 years.

Characteristics of the AMT

The AMT is a parallel income tax system with fewer exemptions, deductions, and rates than the regular income tax. The Congress enacted the AMT to prevent high-income taxpayers from taking advantage of the tax code by using the various preferences in the regular tax code that favor certain activities by taxing the income associated with them at a lower rate. Preferences not allowed under the AMT include personal exemptions and the standard deduction. Thus, the AMT reaches some taxpayers, not ordinarily thought to be exploiting "loopholes," who might otherwise avoid taxation of their high income. Taxpayers with potential AMT liability must calculate their taxes under both the AMT and the regular income tax and pay whichever figure is higher. The amount by which a taxpayer's AMT calculation exceeds his or her regular tax calculation is considered the taxpayer's AMT liability.

For example, in tax year 2006, a married taxpayer with three children who earned $90,000 and reported a typical set of deductions would be required to calculate taxes under both the AMT and the regular income tax. In this case, the taxpayer's liability would be higher under the AMT.

The AMT's Growing Importance to Revenues

Because of the nominal income growth reflected by inflation and the effects of recent tax cuts, the AMT is growing in terms of both the number of qualifying taxpayers and the tax's share of total revenues.

As inflation boosts nominal income, more taxpayers are becoming subject to the minimum tax.[1] Like the rate structure of the regular income tax, the AMT extracts a greater proportion of overall income as real income rises. But unlike the regular income tax, the AMT is not indexed to inflation. So as incomes rise with inflation, a larger number of taxpayers find themselves subject to the AMT each year.

Laws enacted over the past four years—the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), as modified by the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) and the Working Families Tax Relief Act of 2004 (WFTRA)—have cut taxpayer liability and will add to the number of qualifying AMT taxpayers. Although the tax cuts still reduce overall taxpayer liability, many people will find themselves pushed into the AMT system. By cutting tax rates under the regular tax, EGTRRA, JGTRRA, and WFTRA have reduced regular tax receipts and therefore enlarged the AMT's share and consequently its importance to total individual income tax revenues.

1. Real (inflation-adjusted) growth in income can also subject additional taxpayers to the AMT, but its effects are much smaller.

contributions to other federal retirement programs (see Table 4-5).

Social Security and Medicare taxes are calculated as a percentage of covered wages. Unlike the HI tax, which applies to all covered wages, the Social Security tax applies only up to a taxable maximum, which is indexed to the growth of wages over time. Consequently, receipts from OASDI and HI taxes tend to remain fairly stable as a proportion of income as long as covered wages are a stable share of GDP and the distribution of income from wages remains relatively unchanged.

Box 4-2.
Continued

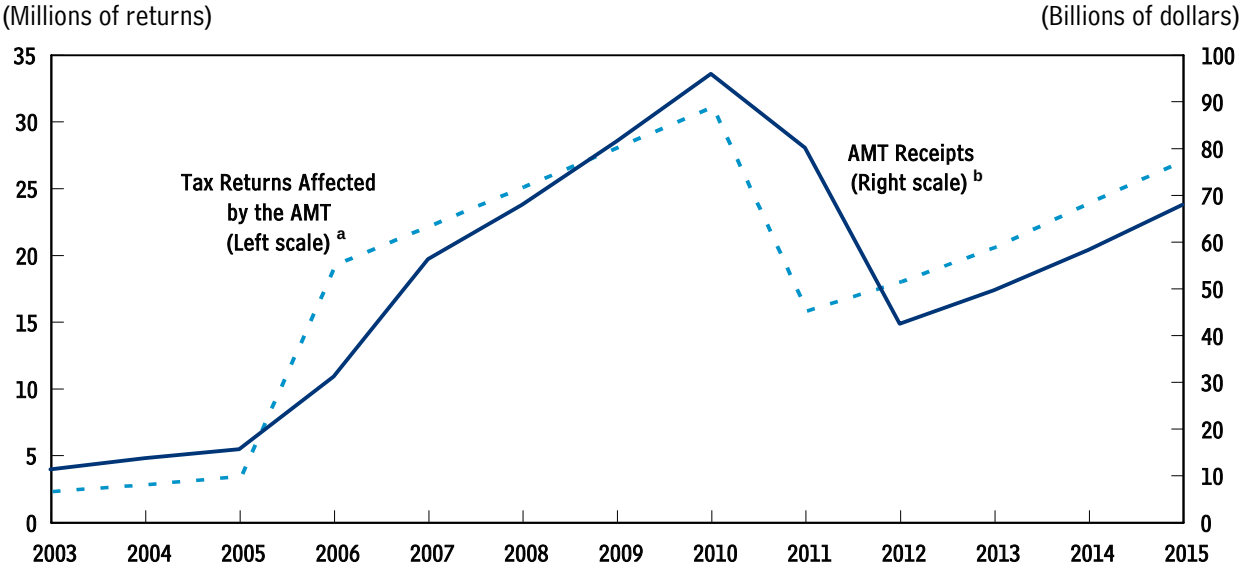
The AMT's Impact in the Next 10 Years

By 2015, the number of AMT qualifiers is expected to reach 27 million, providing approximately $68 billion in revenues (see the figure below). Compared with fiscal year 2004, AMT contributions to individual income tax receipts are expected to almost double by 2015, rising from 1.7 percent of those receipts to 3.3 percent.

During those years, AMT projections rise and fall largely because of the phasing in and out of changes in tax law enacted in EGTRRA, JGTRRA, and WFTRA. For example, WFTRA expands the amount of income exempted under the AMT through 2005. When that provision ends, the number of returns subject to the AMT is expected to rise, jumping from 4 million returns in 2005 to 19 million the following year. As a result, AMT revenues are projected to increase from $15 billion in fiscal year 2005 to $31 billion in 2006.

In 2011, when statutory tax rates are scheduled to increase under the regular income tax and other law changes occur, the number of AMT returns is projected to decline, dropping from 31 million in 2010 to 16 million. Projected revenues from the AMT decline from $96 billion in fiscal year 2010 to $80 billion in 2011 and $42 billion in 2012. Similarly, the AMT's share of total income tax revenues drops from 7.0 percent in 2010 to 5.1 percent in 2011 and 2.5 percent in 2012. After 2012, the dip in AMT receipts because of increases in regular taxes starts to reverse. As inflation pushes more taxpayers to qualify for the AMT, receipts begin climbing again, so that by the end of the 10-year span, AMT revenues are more than four times higher than revenues in fiscal year 2005.

CBO's Projected Effects of the Individual Alternative Minimum Tax



Source: Congressional Budget Office.

Note: The alternative minimum tax requires some taxpayers to calculate their taxes under a more limited set of exemptions, deductions, and credits than the set applicable under the regular individual income tax. Some taxpayers are affected by the AMT but do not have AMT liability because the AMT limits their credits taken under the regular tax.

a. Calendar year basis.

b. Fiscal year basis.

Table 4-5.

CBO's Projections of Social Insurance Tax Receipts, by Source

(Billions of dollars)

	Actual 2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total, 2006-2010	Total, 2006-2015
Social Security	535	573	605	638	672	706	740	774	809	845	882	919	3,361	7,591
Medicare	151	164	174	183	193	203	214	224	234	245	256	267	967	2,192
Unemployment Insurance	39	44	47	47	45	45	47	49	52	54	57	60	232	504
Railroad Retirement	4	4	4	4	4	4	4	4	4	4	4	5	20	42
Other Retirement	5	4	4	4	4	4	3	3	3	3	3	2	19	32
Total	**733**	**790**	**833**	**876**	**918**	**962**	**1,009**	**1,054**	**1,102**	**1,151**	**1,202**	**1,253**	**4,598**	**10,360**

Source: Congressional Budget Office.

CBO projects that social insurance tax receipts will increase slightly relative to GDP in 2005. That increase primarily reflects changes in the accounting for individual income tax and social insurance receipts, as in the analysis of income tax receipts discussed above. In producing its estimate for the level of receipts in 2005, CBO estimates actual receipts for 2004 before the Treasury makes its final determination. In CBO's history and forecast for individual income tax receipts, the opposite effect occurs, so overall receipts are not affected. The increase in payroll tax receipts in 2005 is augmented by other factors, notably an anticipated increase in state unemployment taxes as states replenish their trust funds following the outflow of funds for unemployment benefits during the 2001 recession.

From 2005 onward, payroll tax receipts are expected to decline very gradually as a fraction of both wages and GDP for three reasons: states will largely finish replenishing their unemployment trust funds this year, revenues associated with other federal retirement programs will be lower as the number of workers covered by Railroad Retirement and the old Civil Service Retirement System declines, and a slightly larger fraction of total wage and salary income will be above the maximum level of earnings subject to Social Security taxes. Another factor offsets a portion of the decline: CBO expects that wages and salaries as a share of GDP will rise slightly from 2006 through 2010, boosting social insurance receipts relative to GDP.

Compared with its projections last September, CBO is now estimating about $59 billion more in social insurance tax receipts for the 2005-2014 period. Changes in CBO's economic forecast—mainly higher projections of nominal wages and salaries in the later years—account for $60 billion of that change. Reestimates because of technical factors and recent legislation were very small.

Corporate Income Taxes

Receipts from corporate income taxes—like those from individual income taxes—rose relative to the size of the economy in the 1990s and then fell sharply between 2000 and 2002. Corporate receipts peaked at about 2.2 percent of GDP for the 1996-1998 period, earlier than the peak for individual income taxes, and then dipped just slightly by 2000 to 2.1 percent of GDP. The recession in 2001 reduced profits and revenues substantially, and business tax incentives enacted in the Job Creation and Worker Assistance Act of 2002 (JCWAA) reinforced the revenue decline. Corporate tax revenues as a share of GDP fell sharply—to 1.7 percent of GDP in 2001 and 1.2 percent in 2002 (adjusted to account for legislative shifts in the timing of collections). A second round of business tax cuts was enacted in 2003 in JGTRRA. But profits began rebounding strongly that year, so the net effect was a slight uptick in receipts as a share of GDP in 2003 (to 1.3 percent). In 2004, profits grew strongly and revenue rose to 1.6 percent of GDP. CBO projects that with the expiration of business tax incentives, corporate tax revenues will rise in the near term and peak at about 1.8 percent of GDP in 2005 and 2006, followed by a gradual decline to 1.5 percent of GDP in 2011 and thereafter (see Table 4-6).

Table 4-6.

CBO's Projections of Corporate Income Tax Receipts and Tax Bases

	Actual 2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total, 2006-2010	Total, 2006-2015
Corporate Income Tax Receipts														
In billions of dollars	189	216	226	226	237	246	249	254	261	270	281	292	1,184	2,542
As a percentage of GDP	1.6	1.8	1.8	1.7	1.7	1.6	1.6	1.5	1.5	1.5	1.5	1.5	n.a.	n.a.
Annual growth rate	43.7	14.0	4.9	-0.2	4.7	4.2	1.0	2.0	2.9	3.5	3.9	3.8	n.a.	n.a.
Corporate Book Profits														
In billions of dollars	970	1,257	1,247	1,223	1,264	1,311	1,342	1,378	1,426	1,483	1,549	1,614	6,387	13,837
As a percentage of GDP	8.4	10.3	9.7	9.0	8.8	8.7	8.5	8.4	8.3	8.2	8.2	8.2	n.a.	n.a.
Annual growth rate	15.9	29.6	-0.8	-1.9	3.3	3.8	2.4	2.7	3.5	4.0	4.5	4.2	n.a.	n.a.
Taxable Corporate Profits[a]														
In billions of dollars	601	879	868	836	857	885	899	918	947	982	1,024	1,064	4,345	9,280
As a percentage of GDP	5.2	7.2	6.7	6.1	6.0	5.9	5.7	5.6	5.5	5.4	5.4	5.4	n.a.	n.a.
Annual growth rate	14.3	46.1	-1.2	-3.7	2.6	3.3	1.6	2.1	3.1	3.7	4.3	3.8	n.a.	n.a.
Corporate Receipts as a Percentage of Taxable Profits	31.5	24.6	26.1	27.0	27.6	27.8	27.7	27.7	27.6	27.5	27.4	27.4	n.a.	n.a.

Source: Congressional Budget Office.

Notes: The tax bases in this table (corporate book profits and taxable corporate profits) reflect income as measured in the national income and product accounts rather than as reported on tax returns.

n.a. = not applicable.

a. Taxable corporate profits are defined as book profits minus profits earned by the Federal Reserve System, transnational corporations, and S corporations and minus deductible payments of state and local corporate taxes. They include capital gains realized by corporations.

The business tax cuts enacted in 2002 and 2003 have had a substantial effect on recent corporate tax liabilities and receipts. JCWAA allowed firms to expense (immediately deduct from taxable income) 30 percent of their investment in equipment made between September 11, 2001, and September 10, 2004. (See Box 4-3 for more details.) In addition, JCWAA allowed firms to use losses generated in 2001 and 2002 to obtain greater refunds of previous taxes paid. JGTRRA increased the partial-expensing allowance from 30 percent to 50 percent and allowed partial expensing to be extended slightly longer, until the end of calendar year 2004. Over the past three years, those changes in JCWAA and JGTRRA reduced taxable corporate profits and tax payments and increased corporate refunds, thereby reducing net corporate tax receipts.

CBO's projection of corporate tax receipts depends critically on its projection of book profits. The national income and product accounts measure book profits (called "profits before tax") by assuming that depreciation deductions generally follow the rules prescribed in tax law. For that and other reasons, book profits are the measure in the national income and product accounts that most closely approximates the tax base for the corporate income tax (see Box 4-1 on page 80). CBO makes certain adjustments to book profits to generate a closer approximation to the tax base, called "taxable corporate profits."

Book profits will jump by 30 percent in 2005, CBO projects, and taxable corporate profits will surge by 46 percent, contributing to an increase in corporate receipts of 14 percent this year. That increase is predominantly a result of the expiration of the partial-expensing provision at the end of 2004. The immediate effect of accelerated depreciation is increased deductions and reduced pro-

Box 4-3.

Special Factors in the Projections for Corporate Profits and Receipts

Two special factors, the expiration of the partial-expensing provision and substantial employer contributions to defined-benefit pension plans, cause significant fluctuations in the outlook for corporate profits and receipts over the next several years. Forecasts of profits are always subject to much uncertainty because profits vary widely during the business cycle. Because uncertainty also exists about those special factors, the Congressional Budget Office (CBO) considers the overall uncertainty surrounding the projections for corporate profits and receipts to be magnified.

Partial Expensing

Partial expensing is a method of capital-cost recovery that allows firms to deduct immediately from taxable income a portion of their investments in qualifying fixed assets. The Job Creation and Worker Assistance Act of 2002 instituted partial expensing for business equipment and software investment undertaken between September 11, 2001, and September 10, 2004. It allowed an additional first-year deduction against income of 30 percent of the value of the asset, with normal depreciation rules applying to the remaining 70 percent—a part of which would also be depreciated in the first year. The Jobs and Growth Tax Relief Reconciliation Act of 2003 increased the additional first-year deduction to 50 percent and extended the expiration date to investments undertaken by December 31, 2004. Normal depreciation rules are typically those prescribed by the Modified Accelerated Cost Recovery System established in 1986, which provide accelerated depreciation (generally twice the straight-line rate) over an assumed asset lifetime that is generally shorter than the true lifetime. Full expensing would allow all of the asset's value to be depreciated in the first year and none thereafter; hence, the term "partial expensing" applies to the provision that was enacted.

Although the partial-expensing provision is referred to as "bonus depreciation" in the tax code, it is not a "bonus" in the usual sense of the term. The provision allows depreciation deductions to be taken earlier than otherwise, but the same amount of depreciation deductions—generally the purchase price of the asset—is allowed over the lifetime of the asset. Nonetheless, up-front deductions are more valuable than later deductions because they result in an immediate reduction in taxes and corresponding increase in after-tax profits, which can be invested and over time earn a return. As a result, most firms with qualifying assets would elect to partially expense them.

The combination of the front-loading of deductions and the expiration of the provision causes expected fits—with the reverse effect in later years. Combined with the sharp increase in depreciation deductions in 2004, the swing in depreciation deductions from the partial-expensing provision accounts for almost three-quarters of the projected $287 billion growth in book profits in 2005.

CBO expects that corporate receipts in 2005 will climb more slowly than profits, thereby pushing down corporate receipts as a percentage of taxable profits. The slower growth in receipts occurs partly because tax payments typically lag slightly behind the earning of profits. In addition, greater deductions for net-operating-loss carryforwards—by firms that had negative profits (losses) in recent years—are expected to slow the growth in the corporate tax base and receipts relative to taxable profits. The decline in corporate receipts as a percentage of taxable profits also reflects provisions of the American Jobs Creation Act of 2004 (AJCA) and WFTRA that are expected to reduce corporate receipts in 2005. AJCA repealed the exclusion for a portion of income earned by exporters (so-called extraterritorial income), allowed a deduction for income attributable to production in the United States, and altered numerous other tax provisions for both domestic and foreign corporations. Finally, corporate receipts in 2004 were higher than indicated by CBO's estimates and the most recent information on

Box 4-3.

Continued

depreciation deductions to plummet in calendar year 2005, boosting corporate profits and receipts.[1] First, for partially expensed assets, fewer deductions will typically be available in 2005. In addition, starting in 2005, firms will no longer be able to use the partial-expensing provision and must revert to using the normal rules. Because most equipment investment is depreciated over a five- or seven-year lifetime, the net effect of the provision is that it takes seven years before depreciation deductions roughly return to the level that would have existed without enactment of partial expensing. In the intervening years, depreciation deductions will be lower—and profits correspondingly higher—than they would have been if partial expensing had not been instituted, with the amount diminishing over time starting in 2007.

Because it has already expired and is not a provision that has ever been extended retroactively, partial expensing is not included in CBO's list of expiring tax provisions (see Tables1-3 and 4-10).

1. Individual income and tax receipts are also affected because the partial-expensing provision may be used by partnerships, sole proprietorships, and S corporations, all of which are taxed under the individual income tax.

Employers' Contributions to Defined-Benefit Plans

Largely as a result of the stock market decline that began in 2000 and the recession of 2001, many pension plans that pay a defined benefit have become underfunded. CBO expects that employers will need to make significant contributions to such plans in coming years. Because the contributions that employers make to their defined-benefit plans are a deductible business expense when computing profits, those contributions will be a drag on profit growth.

The Job Creation and Worker Assistance Act allowed firms to reduce their required payments to defined-benefit plans through 2003, and the Pension Funding Equity Act of 2004 generally extended that relief through 2005 (see Appendix D for a more complete discussion). CBO's baseline is required to assume that no further law changes are enacted; therefore, CBO assumes that in 2006, firms will be required to make very large contributions to their plans, which will depress profits. After 2006, contributions are expected to retreat to more normal levels as many firms eliminate their pension-funding shortfalls. Although CBO expects that factor to reduce profit growth substantially in 2006, the reduction is offset in part that year by an increase in profit growth from the partial-expensing provision.

profits, and in CBO's projection, that unexplained strength phases out quickly.

Beyond 2005, CBO's projection for receipts closely follows its profits forecast, which is heavily influenced by assumptions about depreciation deductions and contributions to underfunded pension plans. CBO projects that book and taxable profits will both fall slightly in 2006 and 2007 and then average more than 3 percent growth annually through 2015. Profits are expected to decline as a share of GDP after 2005. In 2006, CBO expects a large increase in employers' contributions to underfunded defined-benefit plans, which will reduce profits (see Appendix D). In the longer term, CBO projects that strong recovery in business fixed investment will increase depreciation deductions and reduce corporate profits relative to GDP during the projection period. Expiration of partial expensing also will contribute to the decline in profits relative to GDP after 2006 by decreasing depreciation deductions and thereby boosting profits—mostly in 2006 and by shrinking amounts thereafter.

CBO projects that corporate receipts will climb in 2006, despite a decline in profits, because of the delayed effect of the partial-expensing expiration. CBO expects receipts to be roughly stable in 2007 and to grow by an average 3.2 percent annually through 2015. Corporate tax

Table 4-7.

CBO's Projections of Excise Tax Receipts, by Category

(Billions of dollars)

	Actual 2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total, 2006-2010	Total, 2006-2015
Highway Taxes	35	37	39	40	42	43	44	47	48	49	51	52	207	454
Airport Taxes	10	11	11	12	13	13	14	15	15	16	17	18	63	143
Telephone Taxes	6	6	6	6	7	7	7	7	7	7	7	7	32	68
Alcohol Taxes	8	8	9	9	9	9	9	9	9	10	10	10	45	93
Tobacco Taxes	8	9	9	9	9	9	9	9	9	9	9	9	45	91
Other Excise Taxes	2	2	3	2	2	2	3	3	3	3	3	3	12	25
Total	**70**	**74**	**77**	**79**	**81**	**83**	**85**	**89**	**92**	**94**	**96**	**98**	**405**	**874**

Source: Congressional Budget Office.

receipts are projected to peak at 1.8 percent of GDP in 2005 and 2006 and then decline to about 1.5 percent of GDP by 2015.

The new outlook for corporate receipts is smaller by about $124 billion over the 2005-2014 period than CBO's projection from September 2004. About $100 billion of the decrease reflects changes in the economic projection. CBO has lowered its projection for profits, especially in the first half of the projection period. Legislative changes account for an additional $30 billion drop in the estimate for corporate receipts. About two-thirds of that comes from enactment of AJCA. The rest comes from enactment of WFTRA, mainly through extending the research and experimentation tax credit through 2005. Minimal technical reestimates raised receipts by $5 billion.

Excise Taxes

Receipts from excise taxes are expected to continue their long-term decline as a share of GDP, falling from 0.6 percent in 2004 to 0.5 percent toward the end of the 10-year projection period. Most excise taxes—those generating about 80 percent of total excise revenues—are levied per unit of good or per transaction rather than as a percentage of value. Thus, excise receipts grow with real GDP, but they do not rise with inflation and therefore do not grow as fast as nominal GDP does.

Nearly all excise taxes fall into five major categories: highway, airport, telephone, alcohol, and tobacco taxes (see Table 4-7). Almost half of all excise receipts are earmarked by law to the Highway Trust Fund; they come primarily from taxes on gasoline and diesel fuel. Most airport taxes are levied on a percentage basis, so they grow at a faster rate than the other categories do. Tobacco and alcohol taxes are expected to remain roughly stable in nominal terms through 2015.

CBO's current projection of total excise tax receipts for the next 10 years is about $25 billion higher than the projection it published in September. Changes in CBO's economic forecast have increased projected receipts by $5 billion over the 2005-2014 period, but technical adjustments to the baseline have decreased them by $8 billion. The technical decreases reflect lower recent receipts from gasoline taxes as well as the growing share of lower-taxed ethanol blends in motor-fuel consumption.

The most significant change in CBO's projection of excise tax receipts over the 2005-2014 period comes from enactment of AJCA, which has increased that projection by $27 billion. About $10 billion of the increase results from new assessments on manufacturers of tobacco products—effectively raising taxes on such products—to fund an equal amount of direct payments to domestic tobacco growers and owners of the rights to produce and market specific amounts of tobacco. About $8 billion of the added revenue comes from the scheduled elimination of the tax subsidy associated with ethanol-blended fuels after calendar year 2010. The subsidy had been scheduled to expire under prior law, but in previous baselines CBO had assumed that the subsidy would be extended under baseline rules governing expiring excise taxes dedicated to trust funds. Now that AJCA provides for the subsidy to be paid out of the general fund, baseline rules require

CBO to assume that the subsidy will expire as scheduled. The remaining increase in projected excise tax receipts, about $9 billion from 2005 to 2014, comes from compliance initiatives in AJCA. Most of those initiatives are associated with provisions intended to reduce evasion of fuel taxes, such as modifying the point of taxation for aviation fuel, altering the tax rates on heavy vehicles, and imposing fines on unregistered transporters of taxable fuels.

AJCA also affected trust fund revenues in ways that do not affect overall excise tax receipts. As a result of the law, revenues dedicated to the Highway Trust Fund will be higher by an estimated $31.5 billion over the 2005-2014 period, and general fund revenues will be correspondingly lower. That change stems mostly from provisions in AJCA that require trust fund accounting to apply all tax credits on ethanol-blended fuels (which reduce revenue) to the general fund rather than to the Highway Trust Fund.

Estate and Gift Taxes

Under current law, receipts from estate and gift taxes change in importance over the first half of CBO's 10-year projection period: their share of GDP is forecast to decline from 0.2 percent in 2004 to 0.1 percent in 2010 and 2011 before jumping back to 0.2 percent of GDP in 2012 and 0.3 percent of GDP thereafter through 2015. That pattern results from the phaseout of the estate tax through 2010 under EGTRRA and the subsequent reinstatement of the tax in 2011.

In the past, revenues from estate and gift taxes tended to grow more rapidly than income because the unified credit for the two taxes, which effectively exempts some assets from taxation, is not indexed for inflation. Under EGTRRA, however, the pattern of receipts over time has changed dramatically. The estate tax is gradually being eliminated, and the gift tax remains in the tax code but in a modified form. Today, tax law effectively exempts $1.5 million of an estate from taxation. EGTRRA will raise that amount in two steps, to $2.0 million in 2006 and $3.5 million in 2009. EGTRRA will also reduce the highest tax rate on estates in steps from 50 percent in 2002 to 45 percent in 2007 and then eliminate the tax in 2010. The law is currently set to reinstate the estate tax in 2011. Because estate tax liabilities are paid after a lag, and because the gift tax remains in the tax code, receipts from estate and gift taxes do not disappear completely in CBO's projection period but instead reach a trough in 2010 and 2011 (see Table 4-8). CBO estimates that after 2011, those receipts will return to roughly their 2002 share of GDP.

Since September, CBO has raised its projections of estate and gift receipts over the 2005-2014 period by $14 billion. About half of that increase results from changes in CBO's economic forecast and about half from technical reestimates. The technical reestimates stem largely from the stronger-than-expected stock market in the second half of calendar year 2004, which boosts the size of taxable estates and generates increased tax receipts. For 2011 alone, CBO has reduced its projection of taxable gifts slightly as a result of reestimating the amount of gifts that are shifted from other years into 2010, just before expiration of both the reduced rate of gift taxation and repeal of the estate tax.

Other Sources of Revenue

Customs duties and numerous miscellaneous sources bring in much smaller amounts of revenue than the major levies do. CBO estimates that those revenues will remain fairly steady as a share of GDP—at just about 0.5 percent—throughout the projection period. That share will be slightly lower in 2005 and 2006, however, because of the effect of low short-term interest rates on the Federal Reserve System's earnings.

CBO projects that customs duties will grow over time in tandem with imports. During the next few years, however, their growth will be curbed as several tariff reductions, which began with enactment of the North American Free Trade Agreement in 1994, continue to phase in. Some slight decline in customs receipts relative to GDP occurs because petroleum, an important component of overall imports, is assessed a specific duty that does not rise with price. Projections of customs duties over the next 10 years are about $7 billion lower now than in the September projections. Most of that change affects the 2010-2014 period and reflects lower expectations of imports over that period than CBO projected in September.

Profits of the Federal Reserve System—the largest component of miscellaneous receipts—are counted as revenues once they are turned over to the Treasury (see Table 4-8). Those profits depend on the interest that the Federal Reserve earns on its portfolio of securities and on gains and losses from its holdings of foreign currency. In the past four years, earnings on securities declined as

Table 4-8.

CBO's Projections of Other Sources of Revenue

(Billions of dollars)

	Actual 2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total, 2006-2010	Total, 2006-2015
Estate and Gift Taxes	25	24	27	25	26	27	21	19	43	46	52	58	126	344
Customs Duties	21	21	23	25	27	28	29	30	31	33	35	37	133	299
Miscellaneous Receipts														
Federal Reserve System earnings	20	21	26	30	34	37	39	41	43	45	47	49	165	388
Universal Service Fund	7	7	7	7	7	8	8	8	8	8	8	8	37	78
Other	6	6	7	6	5	5	5	5	5	5	5	5	29	55
Subtotal	33	34	39	44	47	50	52	54	56	58	60	62	231	521
Total	**79**	**79**	**90**	**94**	**100**	**105**	**102**	**103**	**130**	**137**	**147**	**157**	**490**	**1,164**

Source: Congressional Budget Office.

the Federal Reserve lowered interest rates to stimulate economic growth and counter the economy's downturn. The recession and slow recovery curbed the growth of the Federal Reserve's portfolio of assets because of slower growth in the public's holdings of U.S. currency. CBO expects that, on average, short- and long-term interest rates will rise through 2007, increasing receipts from the Federal Reserve System to a level that is more consistent with the relationship to GDP that existed in the 1990s.

Since September, CBO has made little change to its projection of receipts from the Federal Reserve. CBO has made technical changes to projections of other miscellaneous receipts—mainly for receipts that finance the Universal Service Fund—that raise revenues by about $8 billion over the 2005-2014 period.

Uncertainty in the Revenue Baseline

The projection of revenues in the baseline represents the most likely path of receipts under current law. Nonetheless, even if policies remain unchanged, much uncertainty exists in the projections of economic circumstances that underlie the revenue projection. Thus, misestimates are inherent in forecasting.

The factors most likely to generate misestimates of revenues in the projection can be identified by examining past revisions to CBO's revenue projections. Those revisions are typically categorized into changes caused by legislation, economics, or technical factors.

All nonlegislative factors that affect revenues are ultimately economic in nature. The economic and technical categories used to identify the sources of baseline revisions distinguish revisions that result from changes in CBO's macroeconomic forecast from those linked to other causes. Economic revisions are changes stemming from new projections of variables typically generated as part of a standard macroeconomic forecast. Technical revisions are those that affect how much revenue is generated by a given macroeconomic forecast. Capital gains realizations and retirement distributions are examples of items that are important for determining tax liability but that are not part of a macroeconomic projection.

Although past revisions have been based on a number of different sources, a few major factors have tended to have more influence than others. Among factors usually designated as economic, the most significant is the level of wages and salaries in the economy. Of those that are technical, capital gains and changes in the growth of income among the nation's highest earners stand out. Two other technical factors also merit mention: the behavior of contributions and distributions associated with tax-deferred retirement savings and unexplained deviations in current collections of receipts. In general, revisions to the projection for the near term have tended to be technical, while those for the longer term have tended to be economic.

Among economic factors, projections of wage and salary income have the greatest potential to generate misestimates in the revenue projection because such income is, on average, taxed at a higher rate than other income sources. Further, because wages and salaries are such a large component of income, even small errors can produce relatively large effects. (See Appendix A for a discussion of the sensitivity of receipts to wages and salaries and other selected macroeconomic variables.)

Among technical factors, realizations of capital gains are among the most difficult to predict of all of the items that go into the revenue forecast. Estimates of capital gains realizations are subject to large errors even when the forecaster has access to most of the information on GDP, the stock market, tax rates, and other variables—and that difficulty is compounded in looking beyond the current year, when those variables are not known. As a consequence, swings in realizations have produced errors in the forecast. Over the next few years, however, gains are a smaller risk factor for the projection because of the lower tax rate imposed on them.

Another difficult-to-predict determinant of tax receipts is growth of income among the most highly taxed households relative to income growth among all households. A substantial proportion of income tax receipts is generated by a small percentage of earners because of the tax system's progressivity and the skewed distribution of income. Even if total wage and salary income is accurately projected, a shift in its distribution among households will alter the average rate at which it is taxed. If very high income earners experience income growth significantly faster or slower than that of all households, the tax yielded by a given level of overall income will be higher or lower. That phenomenon is unlikely to generate very large errors in any one year. However, if the differential growth of income persists, errors can accumulate.

Although not a significant source of revision in the past, projections of distributions from tax-deferred retirement accounts offer another potential source of error, largely because of their growing importance in the projection. The baby-boom generation has accumulated large amounts in tax-deferred retirement accounts and will soon begin to take larger distributions from them. In addition, because of the total size of tax-deferred retirement accounts, significant amounts of interest and dividend income are exempt from taxation. Errors in projecting contributions, distributions, or account earnings may all affect the accuracy of the projection.

Finally, determining the sources of current collections is difficult. Detailed information about sources of tax liability are only available about two years after receipts come into the Treasury. Consequently, forecasters know how much is coming in as withholding, estimated taxes, and so forth, but they cannot know until much later which activities generated the liability giving rise to those receipts. Thus, at any given time, current receipts will exceed or fall short of what the projection models say they will be. Even after those differentials are attributed to their most likely sources, some residual remains, and a determination must be made about whether that amount will continue into the future and how far.

Revisions to CBO's September 2004 Revenue Projections

In September, CBO projected that receipts would total $28.3 trillion over the 2005-2014 period (see Table 4-9). The current projection for that period is nearly unchanged: $28.1 trillion, less than 1 percent ($209 billion) lower. Legislative changes since September accounted for $129 billion of that reduction. Virtually all of the changes in the 10-year total resulting from legislation were from the Working Families Tax Relief Act, which extended several provisions of EGTRRA and JGTRRA, extended a number of other expired or expiring tax provisions, and made other changes to the tax code. The American Jobs Creation Act, which replaced an extraterritorial income exclusion with a deduction for income from domestic production and made numerous other tax-law changes, reduced receipts modestly in the first five years of the projection and raised them slightly less in the second five years. Small reductions in projected receipts resulted from the Miscellaneous Trade and Technical Corrections Act, which made minor changes to U.S. trade law, and from the Thrift Savings Plan Open Elections Act of 2004, which affected the frequency with which federal employees could make contributions to their tax-deferred retirement accounts. In addition, a series of continuing resolutions (Public Laws 108-309, -416, and -434) extended mine reclamation fees for brief periods last autumn, and the Consolidated Appropriations Act, 2005 (P.L. 108-447) extended those fees

Table 4-9.

Changes in CBO's Projections of Revenues Since September 2004

(Billions of dollars)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total, 2005-2014
Revenues in CBO's September 2004 Baseline	2,094	2,279	2,406	2,531	2,673	2,821	3,077	3,308	3,471	3,648	28,308
Legislative Changes	-32	-46	-25	-14	-6	-6	*	1	*	-1	-129
Other Changes											
Economic	-14	-25	-23	-9	3	14	18	28	37	43	72
Technical	9	4	-2	-1	-8	-22	-33	-33	-34	-33	-152
Subtotal	-5	-21	-24	-10	-5	-8	-14	-5	3	10	-80
Total Changes	**-37**	**-67**	**-49**	**-23**	**-11**	**-15**	**-15**	**-5**	**3**	**10**	**-209**
Revenues in CBO's January 2005 Baseline	2,057	2,212	2,357	2,508	2,662	2,806	3,062	3,303	3,474	3,657	28,099

Source: Congressional Budget Office.

Note: * = between -$500 million and zero.

through June 2005 as well as fees on satellite companies for use of copyrighted programming through 2010.[5]

The effects of legislative revisions to the baseline are concentrated in the first five years. Most of the tax reductions in WFTRA extend only through 2010; consequently, the law does little to reduce taxes after that date. In addition, AJCA is structured to generate revenue losses in the first five years that are largely offset by gains in the second. As a result, about 95 percent of the revenue loss from all recent legislation occurs in the 2005-2009 period.

The remaining $80 billion decrease in projected revenues since September is the result of technical revisions that reduce receipts by $152 billion partly offset by economic revisions that increase them by $72 billion. The positive economic effects on revenues are concentrated in the later years of the projection period and stem principally from higher projections of economic growth after 2005. However, in the first four years of the projection period, the effect of economic revisions is to reduce the forecast of revenues, mainly because taxable income is projected to represent a smaller share of GDP than was expected in September. Technical changes are also largely concentrated in the later years of the projection period. They mainly reflect new information from tax returns and new estimates of the effects of rapid accumulations in IRAs and 401(k)s.

The Effects of Expiring Tax Provisions

CBO's revenue projections rest on the assumption that current tax laws remain unaltered except for scheduled changes and expirations, which occur on time. The sole exception to that approach is the expiration of excise taxes dedicated to trust funds, which, under budget rules, are included in the revenue projections whether or not they are scheduled to expire.

The assumption that tax provisions expire as scheduled can have a significant impact on CBO's estimates. Many expiring provisions are extended almost as a matter of course, and most of them reduce receipts. Thus, revenue projections that assumed the extension of those provisions would be lower than revenue estimates projected under current law. To provide as complete an outlook for

5. One law with relatively small revenue effects was enacted after CBO had prepared its estimates and is therefore not included. Public Law 109-1 allows certain taxpayers to deduct charitable contributions to tsunami relief from their 2004 taxable income. The tax would reduce receipts by $11 million in 2005 and increase them by $9 million in 2006, according to estimates by the Joint Committee on Taxation.

revenues as possible, this section details the various tax provisions whose expiration is reflected in CBO's baseline and the revenue effects of extending them.

The estimates of revenue associated with the extensions cited in this section do not include any effects of the provisions on the macroeconomy. In many instances, macroeconomic feedbacks would be too small to have a substantial effect on the estimates. Among the expirations, however, are the EGTRRA, JGTRRA, and WFTRA rate cuts that influence labor supply and growth in CBO's baseline economic projection. Hence, the full "dynamic" revenue effect of extending some of these provisions would differ from the estimates presented in this section.

Provisions That Expire During the Projection Period

A number of provisions are scheduled to expire between 2005 and 2015 (see Table 4-10). The most significant of those from a budgetary perspective are tax provisions enacted in EGTRRA, as modified by JGTRRA and WFTRA. First, the higher amount of income exempt from the individual AMT is set to expire at the end of 2005, along with the deduction allowed for qualified education expenses. The credit allowed for certain contributions to IRA and 401(k) plans expires at the end of 2006, and the higher amount of expensing of investment allowed for small businesses expires after 2007. The lower tax rates on dividends and capital gains enacted in JGTRRA expire at the end of 2008. The rest of the provisions from those laws—which represent the bulk of the budgetary effect—expire on December 31, 2010. Those provisions include decreases in marginal tax rates for individuals, increases in the child tax credit, and repeal of the estate tax.

Assuming that the expiring provisions enacted in EGTRRA, JGTRRA, and WFTRA were extended, CBO and the Joint Committee on Taxation (JCT) estimate that revenues would be about $1.66 trillion lower through 2015. About six-sevenths of that reduction would occur from 2011 through 2015. However, extending the changes to estate and gift taxes, which expire at the end of 2010, could reduce revenues as early as 2006 because some taxpayers might postpone taxable gifts that they would otherwise have made during this decade if they knew that the repeal of the estate tax would become permanent in 2011.

CBO's and JCT's estimates of the effects of extending expiring provisions incorporate the assumption that the higher exemption levels for the AMT, which expire after 2005, are extended at their 2005 levels. Under that assumption, the exemption levels would not rise with inflation, so a growing number of taxpayers would still become subject to the AMT over time—albeit fewer than if the higher exemption levels expired as now scheduled.

Fifty-three provisions not initially enacted in EGTRRA, JGTRRA, or WFTRA are due to end between 2005 and 2015; of those, 47 would reduce revenues if extended. The provision with the largest effect is the research and experimentation tax credit, which was enacted in 1981. WFTRA extended that provision for the 10th time, through the end of 2005. Continuing the credit through 2015 would reduce revenues by about $73 billion. The provision that allows individuals to claim nonrefundable personal credits against the AMT, first enacted in 1998, expires after 2005. Extending that provision would reduce revenues by about $50 billion through 2015, according to JCT. The reduced tax rate on repatriated dividends, enacted in AJCA in 2004, expires in 2006, and JCT estimates that extending it would reduce revenues by $47 billion over the next 10 years. Extending the exemption for certain active financing income from the Subpart F rules of the tax law, which expires at the end of 2006, would reduce revenues by $38 billion through 2015. Extending the deduction allowed for state and local general sales taxes, also enacted in AJCA in 2004 and set to expire at the end of 2005, would reduce revenues by $26 billion through 2015. In all, extending those 47 revenue-reducing provisions would decrease receipts by $322 billion from 2006 through 2015.

In the opposite direction, six provisions that are set to expire over the next decade would increase revenues if they were extended. The provision with the largest effect is the Federal Unemployment Tax Act surcharge, which would boost revenues by about $11 billion between 2008 and 2015 if extended. The other provisions include assessing fees for the reclamation of abandoned mines; allowing the Internal Revenue Service (IRS) to impose fees on businesses for providing ruling, opinion, and determination letters; allowing employers to transfer excess assets in defined-benefit pension plans to a special account for retirees' health benefits; providing authority to the IRS for certain undercover operations; and allowing defined-benefit plans with multiple employers to defer a portion of charges for net experience losses. Extending the mine

reclamation fees would raise about $200 million per year. The other four provisions, if extended, would raise about $100 million altogether through 2015.

Expiring Provisions That Are Included in CBO's Baseline

Budget rules enacted in the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, require CBO to include in its projections excise tax receipts earmarked for trust funds, even if those taxes are scheduled to expire. The largest such taxes that are slated to expire during the next 10 years finance the Highway Trust Fund. Some of the taxes for that fund are permanent, but most of them end on September 30, 2005. Extending those taxes at today's rates contributes about $42 billion to CBO's revenue projections in 2015, or about 43 percent of that year's total excise tax receipts.

Other expiring trust fund taxes, if extended, would account for smaller amounts in 2015, CBO estimates. Taxes dedicated to the Airport and Airway Trust Fund, which are scheduled to expire at the end of September 2007, would contribute about $15 billion to revenues in 2015. Taxes for the Leaking Underground Storage Tank Trust Fund, set to end on March 31, 2005, are assumed to continue in CBO's baseline, contributing about $300 million to revenues in 2015. In addition, the new assessment on tobacco manufacturers enacted under AJCA expires on September 30, 2014. Because the receipts are dedicated to the Tobacco Trust Fund, baseline rules require CBO to assume that the assessment is extended, adding $1 billion in revenues to the last year of the projection. No other expiring tax provisions are automatically extended in CBO's baseline.

Total Effect of Expiring Provisions

If all of the tax provisions scheduled to expire were extended together, the revenue projection for 2006 would be about $16 billion lower. That revenue loss would grow to $45 billion in 2007 and $95 billion in 2010, before jumping to nearly $250 billion in 2011 and then reaching $422 billion in 2015. Over the entire 2006-2015 period, revenues would be reduced by about $2.1 trillion. That estimate includes interactions among the provisions. In particular, two AMT provisions—increasing the exemption amount for that tax and allowing certain personal credits to reduce AMT liability—interact with each other and with provisions that affect individual income tax rates.

Table 4-10.

Effect of Extending Tax Provisions That Will Expire Before 2015

(Billions of dollars)

Tax Provision	Expiration Date	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total, 2006-2010	Total, 2006-2015
							Provisions That Expire in 2005							
Abandoned Mine Reclamation Fees	06/30/05	**	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.9	1.9
Defer Losses of Certain Pension Plans	06/30/05	0	**	**	**	*	*	*	*	*	*	*	**	**
Reduced Pension Contributions of Certain Industries	12/27/05	n.a.	**	**	**	**	*	*	*	*	*	*	0.1	-0.1
Archer Medical Savings Accounts	12/31/05	n.a.	*	*	*	*	*	*	*	*	*	*	*	*
Authority for Undercover IRS Operations	12/31/05	n.a.	**	**	**	**	**	**	**	**	**	**	**	**
Brownfields Remediation Expensing	12/31/05	**	-0.2	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-1.2	-2.2
Combat Pay in Earned Income for Refundable Credits	12/31/05	n.a.	*	*	*	*	*	*	*	*	*	*	*	-0.1
Corporate Contributions of Computers to Schools	12/31/05	n.a.	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.7	-1.7
Credit for Electric Vehicles	12/31/05	n.a.	*	*	*	*	*	*	*	*	*	*	*	*
Credit for Electricity Production from Renewable Sources	12/31/05	n.a.	-0.3	-0.4	-0.4	-0.5	-0.6	-0.6	-0.6	-0.7	-0.8	-0.8	-2.1	-5.6
Credit for Research and Experimentation	12/31/05	n.a.	-2.2	-4.4	-5.7	-6.9	-7.8	-8.3	-8.8	-9.3	-9.7	-10.2	-27.0	-73.4
Deduction for Qualified Education Expenses	12/31/05	n.a.	-0.7	-2.3	-2.4	-2.5	-2.5	-2.6	-2.7	-2.8	-2.9	-3.0	-10.4	-24.5
Deduction for Teachers' Classroom Expenses	12/31/05	n.a.	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3	-0.9	-2.2
Deduction of State and Local Sales Taxes	12/31/05	n.a.	-0.5	-2.0	-2.0	-2.0	-2.0	-2.4	-3.7	-3.8	-3.9	-3.9	-8.6	-26.3
Deductions for Clean-Fuel Vehicles and Refueling Property	12/31/05	n.a.	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.8	-1.7
Depreciation for Business Property on Indian Reservations	12/31/05	n.a.	-0.2	-0.4	-0.6	-0.5	-0.5	-0.4	-0.3	-0.3	-0.3	-0.3	-2.2	-3.8
Depreciation of Leasehold and Restaurant Improvements	12/31/05	n.a.	-0.1	-0.3	-0.5	-0.8	-1.1	-1.5	-1.8	-2.1	-2.5	-2.8	-2.9	-13.5
Increased AMT Exemption Amount	12/31/05	n.a.	-11.8	-31.7	-37.4	-43.7	-50.2	-41.0	-23.1	-27.2	-32.1	-37.2	-174.8	-335.4
Indian Employment Tax Credit	12/31/05	n.a.	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.3	-0.6
Interest Rate for Pension Calculations	12/31/05	n.a.	1.9	2.4	0.9	0.5	-0.2	-1.1	-1.5	-2.0	-2.4	-2.4	5.6	-3.8
Net Income Limitation for Marginal Oil and Gas Wells	12/31/05	n.a.	*	*	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.5
Parity in Mental Health Benefits	12/31/05	n.a.	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.3	-0.7
Qualified Zone Academy Bonds	12/31/05	n.a.	*	*	*	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.6
Rum Excise Tax Revenue to Puerto Rico and the Virgin Islands	12/31/05	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.4	-0.8
Special Rules for Pension Plans of Interstate Bus Companies	12/31/05	n.a.	**	**	*	*	*	*	*	*	*	*	*	*
Tax Incentives for Investment in the District of Columbia	12/31/05	n.a.	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.3	-0.3	-0.5	-1.7
Treatment of Personal Credits Under AMT	12/31/05	n.a.	-0.6	-2.9	-3.2	-3.5	-3.9	-4.7	-6.7	-7.4	-8.3	-9.0	-14.0	-50.0
Welfare-to-Work Tax Credit	12/31/05	n.a.	*	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.7
Work Opportunity Tax Credit	12/31/05	n.a.	-0.1	-0.2	-0.3	-0.3	-0.4	-0.4	-0.4	-0.5	-0.5	-0.5	-1.3	-3.7

Continued

Table 4-10.

Continued

(Billions of dollars)

Tax Provision	Expiration Date	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total, 2006-2010	Total, 2006-2015
Provisions That Expire Between 2006 and 2015														
Reduced Tax Rate on Repatriated Dividends	10/20/06	n.a.	*	-0.3	-2.6	-3.5	-4.6	-5.3	-6.1	-7.0	-8.1	-9.3	-11.0	-46.9
Andean Trade Preference Initiative	12/31/06	n.a.	n.a.	*	*	*	*	*	*	*	*	*	-0.1	-0.3
Biodiesel Fuel Tax Credit	12/31/06	n.a.	n.a.	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.4	-1.2
Credit for IRA and 401(k)-Type Plans	12/31/06	n.a.	n.a.	-0.5	-1.5	-1.4	-1.3	-1.3	-1.3	-1.2	-1.1	-1.0	-4.8	-10.6
Depreciation for Clean-Fuel Automobiles	12/31/06	n.a.	n.a.	*	*	*	*	*	*	*	*	*	*	-0.1
Disposition of Electric Transmission Property	12/31/06	n.a.	0.4	-0.2	-0.7	-0.6	-0.4	-0.3	-0.2	-0.2	-0.1	-0.1	-1.6	-2.6
Generalized System of Preferences	12/31/06	n.a.	n.a.	-0.3	-0.6	-0.7	-0.7	-0.7	-0.8	-0.8	-0.9	-0.9	-2.4	-6.5
Reduction in Policyholder Dividends for Insurance Companies	12/31/06	n.a.	n.a.	*	*	*	*	*	*	*	*	*	*	*
Subpart F for Active Financing Income	12/31/06	n.a.	n.a.	-0.8	-2.3	-2.6	-4.0	-4.6	-5.1	-5.6	-6.1	-6.8	-9.8	-38.0
Tax Incentives for Areas of New York City Damaged on 9/11	Various[a]	n.a.	n.a.	-0.2	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-1.2	-2.4
Treatment of Income of Electric Cooperatives	12/31/06	n.a.	n.a.	*	*	*	*	*	*	*	*	*	-0.1	-0.3
African Growth Opportunity Act	09/30/07	n.a.	n.a.	n.a.	*	*	*	*	*	-0.1	-0.1	-0.1	-0.1	-0.4
Depreciation Period for Motor Tracks	12/31/07	n.a.	n.a.	n.a.	*	*	*	*	*	*	*	*	-0.1	-0.3
Dividends of Mutual Funds	12/31/07	n.a.	n.a.	n.a.	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.6
FUTA Surtax of 0.2 Percentage Points	12/31/07	n.a.	n.a.	n.a.	1.0	1.4	1.5	1.5	1.5	1.5	1.5	1.5	3.9	11.5
New Markets Tax Credit	12/31/07	n.a.	n.a.	n.a.	-0.1	-0.3	-0.4	-0.6	-0.8	-1.0	-1.2	-1.3	-0.8	-5.9
Section 179 Expensing	12/31/07	n.a.	n.a.	n.a.	-2.6	-4.5	-3.2	-2.4	-2.0	-1.6	-1.4	-1.4	-10.3	-19.1
Tax Credit for Maintaining Railroad Tracks	12/31/07	n.a.	n.a.	n.a.	*	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-1.0
Suspension of Alcohol Occupational Taxes	06/30/08	n.a.	n.a.	n.a.	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.6
Caribbean Basin Initiative	09/30/08	n.a.	n.a.	n.a.	n.a.	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.8
Expensing of Film and TV Productions	12/31/08	n.a.	n.a.	n.a.	n.a.	*	-0.1	-0.1	-0.1	*	*	*	-0.1	-0.4
Reduced Tax Rates on Dividends and Capital Gains	12/31/08	n.a.	n.a.	n.a.	-2.6	-13.0	-9.7	-24.5	-25.4	-27.1	-28.8	-30.5	-25.4	-161.6
Empowerment and Renewal Zones	12/31/09	n.a.	n.a.	n.a.	n.a.	n.a.	-0.8	-1.6	-1.8	-2.0	-2.1	-2.3	-0.8	-10.7
Exclusion of Gain on Brownfield Transactions	12/31/09	n.a.	n.a.	n.a.	n.a.	**	**	**	**	*	-0.1	-0.1	**	-0.1
Tax Incentives for Certain Diesel Fuel Production	12/31/09	n.a.	n.a.	n.a.	n.a.	n.a.	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.3
10 Percent Income Tax Bracket	12/31/10	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-35.1	-50.5	-50.5	-50.1	-49.9	n.a.	-236.1
Alcohol Fuel Tax Credit	12/31/10	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-1.3	-1.8	-1.8	-1.9	-1.9	n.a.	-8.7
Authority to Postpone Certain Tax Deadlines	12/31/10	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	*	*	*	*	*	n.a.	*
Child Tax Credit at $1,000	12/31/10	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-6.8	-34.1	-34.5	-35.0	-35.5	n.a.	-145.9
Earned Income Tax Credit Modification	12/31/10	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.2	-2.5	-2.5	-2.5	-2.5	n.a.	-9.7
EGTRRA Education Provisions	12/31/10	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-1.6	-2.4	-2.7	-3.1	-3.3	n.a.	-13.2
EGTRRA Pension Provisions	12/31/10	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-1.9	-3.6	-4.3	-5.0	-5.6	n.a.	-20.3
Estate and Gift Tax Changes	12/31/10	n.a.	-2.0	-1.5	-1.9	-1.7	-2.4	-29.0	-51.0	-55.3	-60.8	-65.0	-9.5	-270.6
Income Tax Rates of 25, 28, 33, and 35 Percent	12/31/10	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-42.8	-62.9	-65.4	-68.5	-71.9	n.a.	-311.6

Continued

Table 4-10.

Continued

(Billions of dollars)

Tax Provision	Expiration Date	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total, 2006-2010	Total, 2006-2015
Itemized Deduction and Personal Exemption Phaseout	12/31/10	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-6.0	-12.4	-13.4	-14.5	-15.7	n.a.	-62.0
Joint Filers' 15 Percent Bracket and Standard Deduction	12/31/10	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-5.5	-7.4	-6.8	-6.3	-5.9	n.a.	-31.9
Other Provisions of EGTRRA[b]	12/31/10	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-0.3	-0.9	-0.9	-0.9	-1.0	n.a.	-4.0
Small Ethanol-Producer Credit	12/31/10	n.a.	n.a.	n.a.	*	*	*	*	*	*	*	*	*	-0.2
Transfer of Excess Assets in Defined-Benefit Plans	12/31/13	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	**	**	n.a.	0.1
IRS User Fees	09/30/14	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.1	n.a.	0.1
All Expiring Provisions														
Interaction from Extending All Provisions Together		n.a.	0.9	2.4	2.6	2.7	2.9	-11.9	-34.0	-36.2	-37.9	-39.2	11.6	-147.5
Total		**	-15.5	-44.8	-64.8	-86.3	-94.7	-247.5	-357.6	-378.0	-400.8	-422.3	-306.1	-2,112.3

Sources: Congressional Budget Office; Joint Committee on Taxation.

Notes: * = between -$50 million and zero; ** = between zero and $50 million; n.a. = not applicable; AMT = alternative minimum tax; IRS = Internal Revenue Service; IRA = Individual Retirement Account; FUTA = Federal Unemployment Tax Act; EGTRRA = Economic Growth and Tax Relief Reconciliation Act of 2001.

These estimates assume that the expiring provisions are extended immediately rather than when they are about to expire. The provisions are assumed to be extended at the rates or levels existing at the time of expiration. The estimates include some effects on outlays for refundable tax credits. They do not include debt-service costs.

a. The provisions that increase expensing under Section 179 and allow a five-year lifetime for leasehold improvements expire on 12/31/2006. The provisions related to partial expensing for property placed in service expire on 12/31/2006 and 12/31/2009.

b. Includes provisions related to the adoption credit, dependent care credit, and the employer-provided child care credit.

APPENDIX

A

How Changes in Economic Assumptions Can Affect Budget Projections

The federal budget is sensitive to economic conditions. Revenues depend on taxable income—including wages and salaries, nonwage income, and corporate profits—which generally moves in step with overall economic activity. Spending for many mandatory programs is pegged to inflation either directly (as in Social Security) or indirectly (as in Medicaid). In addition, the Treasury regularly refinances portions of the government's debt at market rates, so the amount of federal spending for interest on that debt is directly tied to such rates.

To illustrate how assumptions about the economy can affect federal budget projections, the Congressional Budget Office (CBO) uses key economic variables to construct "rules of thumb." Those rules provide rough orders of magnitude for gauging how changes in individual economic variables, taken in isolation, will affect the budget's totals. They are not intended to substitute for a full analysis of an alternative economic forecast.

Four variables that figure in this illustration are real (inflation-adjusted) growth, interest rates, inflation, and wages and salaries as a percentage of the economy. For real growth, CBO's rule of thumb shows the effects of a rate that is 0.1 percentage point higher each year, beginning in January 2005, than the assumed rate of economic growth that underlies the agency's baseline budget projections (outlined in Chapter 1). The rules of thumb for interest rates and inflation assume an increase of 1 percentage point over the rates in the baseline, also starting in January 2005.

The rule of thumb for wages and salaries assumes that, beginning in January 2005, wages and salaries are 47 percent of gross domestic product (GDP) and that they continue to be 1 percentage point higher than the share assumed in the baseline for each year of the projection period. Corporate profits are therefore assumed to be 1 percentage point lower each year. This scenario assumes no change in projected levels of nominal or real GDP (which vary in two of the other rules of thumb).

Each rule of thumb is roughly symmetrical. Thus, the effects of lower growth, lower interest rates, lower inflation, or lower wages and salaries as a share of GDP would have about the same magnitude as the effects shown in this appendix, but with the opposite sign. The calculations that appear in this appendix are merely illustrative of the impact that such changes can have. CBO chooses the variations of 0.1 percentage point or 1 percentage point, respectively, for the sake of simplicity alone. Extrapolating from small, incremental rule-of-thumb calculations to much larger changes would be inadvisable because the magnitude of the effect of a larger change is not necessarily a multiple of a smaller change.

Higher Real Growth

Stronger economic growth improves the federal budget's bottom line, and weaker economic growth worsens it. The first rule of thumb outlines the budgetary impact of economic growth that is slightly stronger than CBO's baseline assumes. Specifically, the rule illustrates the effects of growth rates for real GDP that are higher by 0.1 percentage point every year from January 2005 through the end of fiscal year 2015. Those effects differ from the effects of a cyclical change, such as a recession, which are much shorter-term in nature and usually larger in magnitude.

The baseline reflects an assumption that real GDP growth is 3.8 percent in calendar year 2005, 3.7 percent in 2006, and that it averages 2.9 percent from 2007 to

Table A-1.

Estimated Effects of Selected Economic Changes on CBO's Baseline Budget Projections

(Billions of dollars)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total, 2006-2010	Total, 2006-2015
Growth Rate of Real GDP Is 0.1 Percentage Point Higher per Year													
Change in Revenues	1	3	6	9	13	17	22	27	33	38	44	48	212
Change in Outlays													
Net interest (Debt service)	*	*	*	-1	-2	-3	-4	-6	-8	-11	-14	-6	-49
Mandatory spending	*	*	*	*	*	*	*	*	*	*	*	*	*
Total	*****	*****	**-1**	**-1**	**-2**	**-3**	**-4**	**-6**	**-8**	**-10**	**-14**	**-6**	**-48**
Change in Deficit or Surplus[a]	**1**	**3**	**7**	**10**	**15**	**20**	**26**	**33**	**40**	**49**	**58**	**55**	**261**
Interest Rates Are 1 Percentage Point Higher per Year													
Change in Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in Outlays													
Higher rates	10	23	32	37	42	46	48	49	49	50	49	180	425
Debt service	*	1	3	5	8	11	15	19	23	27	32	29	145
Total	**10**	**25**	**35**	**42**	**50**	**57**	**63**	**68**	**72**	**77**	**82**	**209**	**570**
Change in Deficit or Surplus[a]	**-10**	**-25**	**-35**	**-42**	**-50**	**-57**	**-63**	**-68**	**-72**	**-77**	**-82**	**-209**	**-570**
Inflation Is 1 Percentage Point Higher per Year													
Change in Revenues	12	35	62	94	131	170	210	262	317	373	433	492	2,087
Change in Outlays													
Higher rates[b]	13	27	35	40	45	50	52	54	54	55	56	198	469
Debt service	*	*	1	1	2	1	1	*	-3	-6	-11	6	-14
Discretionary spending	0	5	13	22	32	43	55	66	79	92	106	116	515
Mandatory spending	1	11	23	36	52	69	89	110	136	164	196	191	886
Total	**14**	**44**	**72**	**100**	**131**	**164**	**196**	**230**	**266**	**305**	**347**	**511**	**1,856**
Change in Deficit or Surplus[a]	**-3**	**-9**	**-9**	**-6**	*****	**6**	**13**	**32**	**50**	**68**	**87**	**-19**	**231**
Wages and Salaries' Share of GDP Is 1 Percentage Point Higher per Year													
Change in Revenues	11	12	14	16	17	18	20	21	23	24	25	76	190
Change in Outlays (Debt service)	*	-1	-1	-2	-3	-4	-6	-7	-8	-10	-12	-12	-55
Change in Deficit or Surplus[a]	**11**	**12**	**15**	**18**	**21**	**22**	**25**	**28**	**31**	**34**	**37**	**88**	**244**

Source: Congressional Budget Office.

Note: * = between -$500 million and $500 million.

a. Positive amounts indicate a decrease in the deficit or an increase in the surplus.

b. The change in outlays attributable to higher rates in this scenario is different than the estimate in the rule of thumb for interest rates because the principal on Treasury Inflation-Protected Securities grows with inflation.

2015 (see Chapter 2). Adding 0.1 percentage point to that rate each year means that the level of GDP would rise about 1 percent above the level assumed in CBO's baseline by 2015.

A higher rate of growth for GDP would have a number of budgetary implications. For example, it would suggest higher growth in taxable income, leading to increases in revenues that would mount from $1 billion in 2005 to $44 billion in 2015 (see Table A-1). Revenue gains would total 0.7 percent of the projected revenues over the 2006-2015 period.

Higher revenues would mean that the federal government borrowed less and incurred lower interest costs. The payments to service the debt would be minimally lower during the first few years of the projection period; but in later years those annual savings would gradually increase by amounts that reach $14 billion in 2015. The impact of debt-service savings would be blunted slightly by outlay increases, mostly for Medicare. All told, growth in real GDP that was 0.1 percentage point a year higher than the rate assumed in CBO's baseline would reduce deficits by amounts that climb to $58 billion a year by 2015.

Higher Interest Rates

The second rule of thumb illustrates the sensitivity of the budget to changes in interest rates, which affect the flow of interest to and from the federal government. When the budget is in deficit, the Treasury must borrow additional funds from the public to cover any shortfall. When the budget is in surplus, the Treasury uses some of its income to reduce debt held by the public. In either case, the Treasury refinances a portion of its debt at market interest rates.

Under the assumption that, each year, interest rates are 1 percentage point higher than in the baseline for all maturities and that all other economic variables are unchanged, interest costs would be approximately $10 billion higher in 2005 (see Table A-1). That initial jump in interest costs would be fueled largely by the extra costs of refinancing the government's Treasury bills (securities with maturities of six months or less), which make up about 25 percent of its marketable debt. Roughly $1 trillion in Treasury bills is currently outstanding; all of those bills mature within the next six months. The bulk of marketable debt, however, consists of medium-term notes and long-term bonds, which were issued with initial maturities of two to 30 years. As those securities mature, they will be replaced with new securities (the Treasury currently issues two-, three-, five-, and 10-year notes). Correspondingly, the budgetary effects mount; by 2010, the impact of interest rates that are 1 percentage point higher than is assumed in the baseline would be $46 billion, an impact that levels off for the remainder of the projection period.

Under this scenario, the Treasury would have to raise additional cash (above the levels assumed in the baseline) to finance the larger outlays related to higher interest rates. By 2015, such debt-service costs would climb to $32 billion. All told, if interest rates were a full percentage point higher than the rates assumed in CBO's baseline, interest payments (including additional debt-service costs) would surpass baseline levels by increasing amounts, reaching $82 billion by 2015.

Higher Inflation

The third rule of thumb shows the budgetary impact of inflation that is 1 percentage point higher than the level assumed in the baseline. The effects of inflation on federal revenues and outlays tend to offset each other, although the impact on revenues is somewhat larger.

On the one hand, higher inflation and its effects on wages and other income translate directly into higher amounts of income taxes and payroll taxes withheld from people's paychecks. The impact of the higher personal incomes on revenues is reduced, with a lag, by indexation of tax brackets for inflation. In addition, higher corporate profits from faster growth in prices quickly boost receipts from firms' quarterly estimated tax payments. Those results reduce projected deficits or increase projected surpluses.

On the other hand, higher inflation pushes up spending for many benefit programs and drives growth in projections of discretionary spending. Many mandatory programs automatically adjust benefit levels each year to reflect price increases. Social Security, federal employees' retirement programs, Supplemental Security Income, veterans' disability compensation, food stamps, and child nutrition programs, among others, are adjusted (with a lag) for changes in the consumer price index or one of its components. Many Medicare reimbursement rates are also adjusted annually for inflation. Other programs, such as Medicaid, are not formally indexed but nonethe-

less grow with inflation. To the extent that the benefit payments that participants in retirement and disability programs initially receive are related to wages, changes in nominal wages will be reflected in future outlays for those programs. Finally, future spending for discretionary programs is projected on the basis of assumed rates of wage and price growth.

Inflation also has an impact on net interest because it is one component of nominal long-term interest rates (the other being a real rate of return). For example, if real rates of return remain constant, but inflation rises, interest rates will climb, and new federal borrowing will incur higher interest costs. In deriving this rule of thumb, CBO assumes that nominal interest rates rise in step with the increase in inflation, thus increasing the cost of financing the government's debt.

An annual increase of 1 percentage point in projected inflation in every year of the baseline period would boost revenues by about 7 percent from 2006 through 2015—and increase outlays by about 6 percent over that same period (see Table A-1). In the near term, the net effect would be higher deficits—as increases in outlays exceed the higher revenues. This is in large part because CBO assumes that interest rates rise when inflation increases, thus driving up interest payments. Mandatory spending responds to higher inflation in the short run as well. From 2005 through 2008, those increases in outlays exceed the boost in revenues projected under this scenario.

By 2009, however, the revenue acceleration associated with higher inflation overcomes the higher outlay levels. Revenues exceed outlays by $87 billion by the end of the projection period. Including debt-service costs, the net effect of this scenario is a reduction of $231 billion in the cumulative deficit over the 2006-2015 period.

Wages and Salaries as a Higher Percentage of GDP

Because different types of income are taxed at different rates, the variation in income shares over time has contributed to upward and downward movements in tax receipts relative to GDP. Considerable uncertainty exists in projections of the income shares.

Two of the most important types of income for projecting federal revenues are wages and salaries and corporate profits. Wages and salaries are the most highly taxed income in CBO's economic forecast. They are subject to taxation under the individual income tax as well as through payroll taxes for Social Security (up to a maximum amount) and Medicare. CBO estimates that an additional dollar of corporate profits produces less revenue than an additional dollar of wages and salaries. As a result, higher projections for wages and salaries, and correspondingly lower projections for profits, result in higher projected budget receipts.

CBO estimates that a shift of 1 percentage point of GDP out of profits and into wages and salaries would lead to gains in revenues of $11 billion in 2005, rising to $25 billion in 2015 (see Table A-1). Higher revenues would lead to an annual reduction in borrowing that would gradually reach $12 billion by 2015. Overall, under this scenario, the 2015 deficit would be $37 billion lower than that projected in the baseline, and the cumulative deficits over the 2006-2015 period would be reduced by 0.8 percent of projected revenues over the period.

APPENDIX

B

The Treatment of Federal Receipts and Expenditures in the National Income and Product Accounts

The fiscal transactions of the federal government are reported in two major sets of accounts that are conceptually quite different. The presentation generally discussed in the press and used by executive branch agencies and the Congress (and the one followed in the main text of this report) is the *Budget of the United States Government,* as reported by the Office of Management and Budget. It focuses on cash flows—revenues and outlays, or the collection of taxes and fees and the disbursement of cash for the various federal functions. The goals of the budget are to provide information that can assist lawmakers in their policy deliberations, to control federal activities, and to help the Department of the Treasury manage its cash balances and determine its borrowing needs.

The national income and product accounts (NIPAs) also report the federal government's transactions, but with different goals. The NIPAs, which are produced by the Bureau of Economic Analysis (BEA) at the Department of Commerce, are intended to provide a comprehensive measure of current production and related income generated by the U.S. economy.[1] A well-known measure of current production in the NIPAs is gross domestic product, or GDP. The accounts, which are used extensively in macroeconomic analysis, divide the economy into four major sectors—business, household, government, and the rest of the world (the foreign sector), each with its own set of accounts.[2] The federal sector, which is the focus of this appendix, is one component of the government sector (the state and local sector is the other component).[3] Because the goals of the NIPAs differ from those of the budget, the two accounting systems treat some government transactions very differently. On average, the differences cause receipts and expenditures in the NIPAs, as projected by the Congressional Budget Office (CBO), to exceed the corresponding budget totals by roughly 3.5 percent and 3 percent, respectively, for the 2006-2015 period.

Conceptual Differences Between the NIPAs' Federal Sector and the Federal Budget

The budget of the federal government is best understood as an information and management tool. It focuses mostly on cash flows, recording for each period the inflow of revenues and the outflow of spending.[4] The main period of interest in the budget accounts is the federal fiscal year, which runs from October 1 through September 30. There are a few exceptions to the general rule of recording transactions on a cash basis, but they are intended to improve the usefulness of the budget as a tool for making decisions. For example, when the federal gov-

1. The discussion of the NIPAs in this appendix generally refers to Table 3.2 in the accounts, "Federal Government Current Receipts and Expenditures," which most closely resembles the presentation in the budget. For other discussions of the NIPAs, see Bureau of Economic Analysis, "Federal Budget Estimates for Fiscal Year 2005," *Survey of Current Business* (March 2004); and *Budget of the United States Government, Fiscal Year 2005: Analytical Perspectives.*

2. Some accounts in the NIPAs, such as the domestic capital account (which shows saving and investment), focus on components of gross domestic product or income rather than on a specific sector and bring together relevant information from all four sectors.

3. More formally, BEA regards the federal government and the state and local governments as subsectors. The treatment of state and local governments' transactions in the NIPAs closely resembles that of the federal government's transactions.

4. Some budget accounts distinguish between on-budget and off-budget transactions and between federal funds and trust funds. Those distinctions do not affect the overall budget balance, have no economic implications, and do not appear in the NIPAs.

ernment makes direct loans or provides loan guarantees (as with student loans), tracking flows of cash would give a misleading view of costs; under what is known as credit reform, the budget records federal administrative expenses and the estimated subsidy costs at the time that the loans are made.

The federal sector of the NIPAs has none of the planning and management goals of the budget. Instead, it is focused on displaying how the federal government fits into a general framework that describes current production and income within specific periods and what happens to that production and income. The main periods of interest for the NIPAs are calendar years and calendar quarters, although approximate totals for fiscal years can be derived from the quarterly estimates.

From the point of view of the NIPAs, the federal government is both a producer and a consumer: its workforce produces government services, and its purchases consume some of the nation's production. In addition, the federal government affects the resources available to the private sector, through its taxes and transfers. The job of the NIPAs is to record all of those activities in a consistent manner.

The federal sector of the NIPAs tracks how much the government spends on consumption purchases, and it records the transfer of resources that occurs through taxes, payments to beneficiaries of federal programs, and federal interest payments. The federal sector's contribution to GDP is presented elsewhere in the NIPAs.[5]

5. As part of its comprehensive revisions to the NIPAs officially implemented in December 2003, BEA explicitly recognizes the services produced by the government as part of GDP and treats government purchases of goods and services (which are part of the business sector's contribution to GDP) as intermediate inputs to the production of government services. (Thus, the NIPAs now handle transactions in the government sector similarly to those in the business sector.) The changes shift the composition of GDP away from goods and toward services, because the government's purchases of goods are now classified as inputs to a new component of GDP, government services. Although that revised treatment changes the relative importance of different components of GDP as reported in Table 1.1.5 in the accounts ("Gross Domestic Product and Income"), it does not change the level of GDP or the transactions reported in the NIPAs' federal sector (Table 3.2 in the accounts).

Differences in Accounting for Major Transactions

The accounting differences between the NIPAs and the federal budget stem from the conceptual differences discussed above. In attempting to properly incorporate federal transactions into the framework used to determine GDP, the NIPAs reflect judgments about the best treatment of transactions such as government investment, sales and purchases of existing assets, federal credit, and federal activities that resemble those of businesses, along with transactions involving U.S. territories. In some cases, the appropriate treatment may be to exclude the transaction entirely from the NIPAs or to move it from the federal sector to another place in the NIPAs. In other cases, the appropriate treatment may involve recording as a receipt in the NIPAs something that the federal budget reports as an offsetting (negative) budget outlay, or adjusting the timing of a federal transaction to better match the timing of related production or income flows.[6]

The Measurement of National Saving

Several conventions in the NIPAs are intended to portray the federal government's contribution to the NIPA measure of national saving. Two major departures from the budget are the treatment of federal investment spending (for such things as ships, computers, and office buildings) and the treatment of federal employees' retirement programs.

In the federal budget, outlays for investment purchases are treated like other cash outlays and thus are subtracted from budget revenues to determine the size of the federal deficit or surplus. In the NIPAs, by contrast, federal investment is not counted as federal spending for the purpose of measuring net federal saving (current receipts minus current expenditures).[7] That is because new purchases of federal capital (investments) do not measure the current inputs from the existing stock of capital used to provide government services. To approximate the cost of those capital inputs, the NIPAs include in current fed-

6. The resulting differences between the numbers in the NIPAs and the budget are sometimes divided into three groups: coverage, netting, and timing. Although all three types of differences can affect total revenues or outlays, netting differences have no impact on the federal deficit or surplus because they affect revenues and outlays equally.

7. Federal investment is shown elsewhere in the NIPAs, along with private investment spending in the domestic capital account, which shows saving and investment (Table 5.1 in the accounts).

eral expenditures an estimate of the depreciation (consumption of fixed capital) of the stock of federal capital. The treatment is conceptually similar to that for the corporate business sector, which uses depreciation rather than investment purchases to compute net corporate saving (retained earnings). In the federal budget, depreciation is not tracked. In Table B-1, which provides a crosswalk between the budget and the NIPAs, that difference in coverage is shown under "Treatment of investment and depreciation."[8]

The transactions of federal employees' retirement programs are also handled very differently in the budget and the NIPAs. In the budget, federal employees' contributions for their retirement are recorded as revenues, whereas agencies' contributions on behalf of their employees (as well as interest payments from the Treasury to trust funds) have no overall budgetary effect because they are simply transfers of funds between two government accounts.[9] Benefit payments to retirees are recorded as outlays in the budget. By contrast, in the NIPAs, the aim is to make the measurement of saving by the federal government consistent with that by the private sector. Therefore, the NIPAs treat some of the transactions of federal retirement plans, except for the Railroad Retirement Fund, as part of the household sector.[10] The receipts from federal employers' and employees' retirement contributions (and the interest earned by retirement accounts) are considered part of the personal income of workers and thus are not recorded as federal transactions (receipts or negative expenditures). That arrangement parallels the treatment for the private sector.

On the outlay side, pension benefit payments to retirees are not recorded as federal expenditures in the NIPAs because they are treated as transfers from pension funds within the household sector. Some transactions, however, are treated as part of federal expenditures even though the corresponding receipts are recorded in the household sector. The government's payments for its workers' retirement are counted as federal expenditures (as part of employee compensation), as is the interest paid to federal retirement accounts. The different treatment of retirement contributions by federal employees shows up in Table B-1 under "Receipts"; the different treatment of contributions by federal employers, interest earnings, and benefit payments is shown under "Expenditures."

Capital Transfers and Exchanges of Existing Assets

The NIPAs measure current production and income rather than transactions involving existing assets. Thus, the NIPAs do not count capital transfers or asset exchanges as part of federal receipts or expenditures, although the budget generally does include those transactions. The NIPAs define as capital transfers, and thus exclude, estate and gift taxes (which are taxes on private capital transfers), investment subsidies to businesses, and investment grants to state and local governments (for highways, transit, air transportation, and water treatment plants).[11] Exchanges of existing assets include federal transactions for deposit insurance and sales and purchases of government assets (including assets that are not produced, such as land and the radio spectrum). In Table B-1, those differences between the NIPAs' federal sector and the budget accounts show up on the revenue side as estate and gift taxes and on the outlay side as capital transfers and lending and financial adjustments.

8. The estimates and presentation of the reconciliation between the budget and the NIPAs in Table B-1 are based on CBO's interpretation of the revised methodology for the accounts, as presented in Bureau of Economic Analysis, *Survey of Current Business* (June 2003), and on BEA's reconciliation of the Administration's budget for fiscal year 2005, published in the March 2004 *Survey of Current Business*.

9. In the budget, contributions by an agency for its employees' retirement are outlays for that agency and are offsetting receipts (negative outlays) for the trust funds. Thus, those intragovernmental transfers result in no net outlays or receipts for the total budget. That treatment is the same for Social Security and Medicare contributions by the federal government for its employees.

10. Social Security contributions and benefit payments for both private and government employees are kept in the federal sector as receipts and expenditures rather than moved to the household sector.

11. Another type of capital transfer recognized by BEA in the NIPAs is the annual lump-sum payment from the Treasury to the Uniformed Services Retiree Health Care Fund—a trust fund begun in fiscal year 2003 to pay for benefits received by Medicare-eligible retired members of the armed forces and their dependents. Those payments to the trust fund are for accrued but unfunded liabilities for benefits attributable to work performed before 2003. BEA now excludes those payments from federal expenditures because they are not related to current production. Thus, those payments have no impact on net federal saving. In the budget, those annual payments are recorded as outlays by the Treasury but as offsetting receipts (negative outlays) by the trust fund. Because those annual payments have no net impact on federal spending in either the NIPAs or the budget, there is no corresponding reconciliation item in Table B-1.

Table B-1.

Relationship of the Budget to the Federal Sector of the National Income and Product Accounts

(Billions of dollars)

	Actual 2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
						Receipts						
Revenues (Budget)[a]	1,880	2,057	2,212	2,357	2,508	2,662	2,806	3,062	3,303	3,474	3,657	3,847
Differences												
Coverage												
Contributions for government employees' retirement	-5	-4	-4	-4	-4	-4	-3	-3	-3	-3	-3	-2
Estate and gift taxes	-25	-24	-27	-25	-26	-27	-21	-19	-43	-46	-52	-58
Geographic adjustments	-4	-4	-4	-4	-4	-5	-5	-5	-5	-6	-6	-6
Universal Service Fund receipts	-7	-7	-7	-7	-7	-8	-8	-8	-8	-8	-8	-8
Subtotal, coverage	-40	-39	-42	-40	-42	-43	-37	-35	-59	-62	-68	-75
Timing shift of corporate estimated tax payments	1	5	0	0	0	0	0	0	0	0	0	0
Netting												
Medicare premiums	32	38	55	64	69	75	82	90	98	107	118	130
Deposit insurance premiums	*	*	1	1	1	1	2	2	2	2	2	2
Government contributions for OASDI and HI for employees	14	14	15	16	17	18	19	20	22	23	24	25
Income receipts on assets	16	16	17	16	18	18	18	18	19	19	19	20
Surpluses of government enterprises	5	6	6	5	5	5	6	6	6	6	6	6
Other	18	24	24	24	24	25	25	26	26	27	27	25
Subtotal, netting	85	99	117	127	135	143	151	161	172	183	197	209
Other adjustments	5	-13	-1	-5	4	-1	-2	-3	-6	1	1	*
Total Differences	**51**	**52**	**74**	**81**	**97**	**99**	**113**	**122**	**108**	**122**	**129**	**134**
Receipts in the NIPAs	1,930	2,109	2,286	2,438	2,605	2,761	2,919	3,184	3,411	3,596	3,787	3,981
						Expenditures						
Outlays (Budget)[a]	2,292	2,425	2,507	2,618	2,743	2,869	2,996	3,142	3,232	3,389	3,542	3,706
Differences												
Coverage												
Treatment of investment and depreciation	-15	-20	-22	-24	-26	-28	-31	-33	-36	-39	-42	-45
Contributions for government employees' retirement	35	37	35	34	35	36	37	38	39	41	42	43
Capital transfers	-45	-48	-51	-53	-54	-55	-56	-56	-57	-58	-59	-60
Lending and financial adjustments	17	13	14	21	21	11	12	11	12	13	13	14
Geographic adjustments	-13	-14	-14	-14	-15	-16	-16	-17	-18	-19	-20	-21
Universal Service Fund payments	-3	-6	-7	-7	-7	-7	-7	-7	-7	-7	-7	-8
Other	-41	-31	-22	-15	-16	-16	-13	-10	-10	-6	-5	-5
Subtotal, coverage	-64	-69	-66	-57	-62	-75	-74	-53	-77	-76	-78	-82
Timing adjustments	2	-13	6	9	0	0	0	-16	16	0	0	0

Continued

Table B-1.
Continued

(Billions of dollars)

	Actual 2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Differences (continued)												
Netting												
Medicare premiums	32	38	55	64	69	75	82	90	98	107	118	130
Deposit insurance premiums	*	*	1	1	1	1	2	2	2	2	2	2
Government contributions for OASDI and HI for employees	14	14	15	16	17	18	19	21	22	23	24	26
Income receipts on assets	16	16	17	16	18	18	18	18	19	19	19	20
Surpluses of government enterprises	5	6	6	5	5	5	6	6	6	6	6	6
Other	18	24	24	24	24	25	25	26	26	27	27	25
Subtotal, netting	85	99	117	127	135	143	151	161	173	184	197	209
Total Differences	**23**	**18**	**58**	**80**	**73**	**68**	**78**	**93**	**111**	**108**	**119**	**127**
Expenditures in the NIPAs	2,315	2,443	2,565	2,698	2,816	2,937	3,073	3,212	3,343	3,497	3,661	3,833
						Net Federal Government Saving						
Budget Deficit (-) or Surplus[a]	-412	-368	-295	-261	-235	-207	-189	-80	71	85	115	141
Differences												
Coverage												
Treatment of investment and depreciation	15	20	22	24	26	28	31	33	36	39	42	45
Contributions for government employees' retirement	-40	-41	-39	-38	-39	-39	-40	-41	-42	-44	-44	-45
Estate and gift taxes	-25	-24	-27	-25	-26	-27	-21	-19	-43	-46	-52	-58
Capital transfers	45	48	51	53	54	55	56	56	57	58	59	60
Lending and financial adjustments	-17	-13	-14	-21	-21	-11	-12	-11	-12	-13	-13	-14
Geographic adjustments	9	10	10	10	10	11	11	12	12	13	14	15
Universal Service Fund	-3	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1
Other	41	31	22	15	16	16	13	10	10	6	5	5
Subtotal, coverage	24	30	23	16	21	32	37	40	18	14	10	7
Timing adjustments	-1	17	-6	-9	0	0	0	16	-16	0	0	0
Other adjustments	5	-13	-1	-5	4	-1	-2	-3	-6	1	1	*
Total Differences	**28**	**34**	**16**	**1**	**25**	**31**	**35**	**53**	**-3**	**15**	**11**	**7**
Net Federal Government Saving	-384	-334	-278	-260	-211	-177	-154	-28	68	100	125	148

Source: Congressional Budget Office.

Note: * = between -$500 million and $500 million; OASDI = Old-Age, Survivors, and Disability Insurance; HI = Hospital Insurance.

a. Includes Social Security and the Postal Service.

Credit Programs

The budget is not affected by all of the transactions associated with federal loans and loan guarantees—just by federal administrative costs and the estimated cost of subsidies. Loan disbursements, loan repayments, and interest are reported in what are termed financing accounts, which have no effect on revenues or outlays.

Like the budget, the NIPAs record administrative costs and generally exclude loan disbursements and repayments and other cash flows considered exchanges of existing assets or financial and lending transactions unrelated to current production. Unlike the budget, however, the NIPAs do not record subsidy costs. Also, unlike the budget, the NIPAs include the interest receipts from credit programs (as part of federal receipts). Those differences in the treatment of credit programs are recorded in two places. Under "Expenditures" in Table B-1, the lending and financial adjustments show the differences in handling the loan subsidies, and under "Receipts," the difference in treating loan interest is captured as income receipts on assets.

Geographic Coverage

The NIPAs exclude all government transactions with Puerto Rico and the U.S. territories, whose current production is, by the NIPAs' definition, not part of U.S. GDP. Because federal transfers dominate those transactions, their exclusion tends to increase the NIPAs' depiction of net federal saving in comparison with the budget's measure of saving—the federal deficit or surplus. That difference in coverage is shown as geographic adjustments in Table B-1.

Universal Service Fund

The budget, but not the NIPAs' federal sector, records the business activity of the Universal Service Fund, which provides resources to promote access to telecommunications. The fund receives federally required payments from providers of interstate and international telecommunications service and disburses those funds to local providers that serve high-cost areas, low-income households, libraries, and schools, as well as to rural health care providers. The fund is administered by an independent nonprofit corporation (the Universal Service Administrative Company), which is regulated by the Federal Communications Commission.

Because of the limited role played by the government, the fund's receipts and payments are classified in the NIPAs as intracorporate transfers (from one business to another) and are not recorded in the federal sector of the accounts. The fund's revenues and outlays appear in the federal budget but have little net impact on the deficit or surplus. The difference in treatment of the Universal Service Fund is so labeled in Table B-1.

Interest Receipts

In the NIPAs, federal interest receipts are grouped with other types of federal receipts (in the category called "income receipts on assets") rather than netted against federal interest payments, as they are in the federal budget.[12] BEA's treatment is consistent with international accounting practices, under which interest receipts and payments are reported separately. That difference between the NIPAs and the federal budget in their treatment of interest receipts raises the NIPAs' measure of government receipts relative to federal budget revenues and increases the NIPAs' measure of federal spending relative to budget outlays. However, because the difference in treatment affects receipts and expenditures in the NIPAs by exactly the same amount, it has no impact on the NIPAs' measurement of net government saving.

Surpluses of Government Enterprises

In the NIPAs, the surpluses of government enterprises, such as the Postal Service, are shown on a separate line under federal government current receipts. That treatment is in line with international accounting standards, which generally advocate reporting spending on a gross rather than a net basis. By contrast, surpluses of government enterprises are treated as offsetting receipts (negative outlays) in the federal budget.

Military Sales and Assistance in Kind

The NIPAs attempt to identify contributions to GDP by sector. Therefore, they do not classify as part of federal consumption military purchases of equipment and services that are intended for sale or as gifts to foreign governments. Instead, those transactions are part of net exports in the NIPAs' foreign transactions account (Table 4.1 in the accounts). In the case of gifts, the transactions are also recorded in the federal sector of the NIPAs as part of transfers to the rest of the world—a classification that parallels their treatment as outlays in the federal budget. By contrast with their treatment in the NIPAs, military

12. About half of interest receipts, mainly interest from penalties on late tax payments, are recorded as revenues in the federal budget.

sales to foreign governments are recorded in the federal budget as outlays, while the proceeds from those sales are recorded as offsetting receipts (negative outlays).

Timing Differences

The NIPAs attempt to measure income flows as much as possible when income is earned (on an accrual basis) rather than when income is received (on a cash basis).[13] That approach makes sense in an integrated system of accounts that is tracking both production and income, because, on an accrual basis, the value of what is produced in a period should (measurement problems aside) match the total income generated. For example, BEA attributes corporate tax payments to the year in which the liabilities are incurred rather than to the time when the payments are actually made. However, the NIPAs are not entirely consistent in that respect: personal tax payments are counted as they are made and are not attributed back to the year in which the liabilities were incurred. Currently, BEA is engaged in research to develop methods for preparing accrual-based estimates of personal tax payments.

Because the budget is mostly on a cash basis and the NIPAs' federal sector is largely on an accrual basis, differences exist in a number of areas in the timing for recording transactions.

Corporate Taxes. Tax legislation sometimes temporarily shifts the timing of corporate tax payments (usually from the end of one fiscal year to the beginning of the next one). The NIPAs exclude such timing shifts, which are not consistent with accrual accounting. The timing adjustments for the effects of the Economic Growth and Tax Relief Reconciliation Act of 2001 and the Jobs and Growth Tax Relief Reconciliation Act of 2003 are shown as the timing shift of corporate estimated tax payments in Table B-1.

Although corporations make estimated tax payments throughout the year, any shortfalls (or overpayments) are corrected in the form of final payments (or refunds) in subsequent years. The NIPAs shift those final payments back to the year in which the corporate profits that gave rise to the tax liabilities actually were generated, whereas the budget records them on a cash basis. The results of that difference are difficult to identify for recent history and thus appear under "Other adjustments" under "Receipts" in Table B-1.[14]

Personal Taxes. Although personal taxes are not recorded on an accrual basis in the NIPAs, BEA nevertheless attempts to avoid large, distorting upward or downward spikes in personal disposable income due to timing quirks. Such quirks occur, for example, in April of each year, when most final settlements for the previous year's personal taxes are paid. In the NIPAs, therefore, those settlements are evenly spread over the four quarters of the calendar year in which they are paid. (As with accrual accounting, that treatment avoids spikes. Unlike accrual treatment, however, it does not move payments back to the year in which the liabilities were incurred.) The smoothing can alter the relationship of the NIPAs and the budget accounts for fiscal years because it shifts some receipts into the last quarter of the calendar year and thus into the following fiscal year. Those adjustments are difficult to identify for recent history and thus are not shown separately in Table B-1; they appear in the "Other adjustments" category under "Receipts."

Transfers and Military Compensation. Timing adjustments are needed on the spending side of the NIPAs to align military compensation and government transfer payments—for example, veterans' benefits, Supplemental Security Income (SSI) payments, and Medicare's payments to providers—with income that is reported on an accrual basis in the NIPAs. Misalignments can occur because of delays in payments or quirks in the calendar.

For example, although SSI payments are usually made on the first day of each month, the checks are sometimes mailed a day or more in advance. That situation typically occurs when the first of the month falls on a weekend or holiday. If it occurs for the October payments, the payments will be pushed into the previous fiscal year in the budget. In such cases, the NIPAs introduce a timing adjustment that effectively puts the payments back on the first day of the month. Hence, the NIPAs' adjustment al-

13. See United Nations, *System of National Accounts* (1993), paragraph 3.19, which emphasizes reporting transactions on an accrual basis. Many of the conceptual changes to the NIPAs over time have been based on the guidelines enumerated in that U.N. document. See also Bureau of Economic Analysis, "The NIPAs and the System of National Accounts," *Survey of Current Business* (December 2004), pp. 17-32.

14. "Other adjustments" include timing differences not shown elsewhere in Table B-1, plus discrepancies between figures in the NIPAs and the budget that may diminish when BEA makes subsequent revisions.

ways ensures that there are exactly 12 monthly SSI payments in a year, whereas in the budget, there can be 11 in some years and 13 in others.

For military compensation, which is paid at the beginning and the middle of each month, the adjustment in the NIPAs always ensures 24 payments in a year. In the budget, by contrast, there can be 23 payments in some years and 25 in others. The timing adjustments for expenditures in Table B-1 reflect that regularizing for transfers and for military pay.

By contrast with the federal budget, the NIPAs record Medicare payments on an accrual rather than on a cash basis. That treatment better shows the link between the underlying economic activity (the medical services provided) and the associated federal transactions (payment for those services), which can be several months apart. That timing adjustment, however, has only a small effect on the NIPAs' measure of net federal saving.

Business Activities

The NIPAs and the federal budget both treat certain revenues as offsetting receipts (negative outlays) when they result from voluntary transactions with the public that resemble business activities, such as the proceeds from the sale of government publications. However, the NIPAs generally have a stricter view of what resembles a business transaction. In particular, Medicare premiums, deposit insurance premiums, rents, royalties, and regulatory or inspection fees are deemed equivalent to business transactions in the budget but not in the NIPAs. Consequently, those transactions (negative outlays in the budget) are treated in the NIPAs as government receipts (contributions for government social insurance and current transfers from business—fines and fees). Those differences are recorded under "Netting" in Table B-1. Because they affect total current receipts and total current expenditures by exactly the same amounts, they have no effect on the NIPAs' measure of federal saving.

Presentation of the Federal Government's Receipts and Expenditures in the NIPAs

Like the budget, the federal sector of the NIPAs classifies receipts by type, but the categories differ (see Table B-2). The NIPAs' classifications help to determine measures of such things as disposable income and corporate profits after taxes. There are five major categories of current receipts. The largest one, current tax receipts, includes taxes on personal income, taxes on corporate income, taxes on production and imports, and taxes from the rest of the world. The next largest category is contributions for government social insurance, which consists of Social Security taxes, Medicare taxes and premiums, and unemployment insurance taxes. The remaining categories are current transfer receipts (fines and fees), income receipts on assets (interest, rents, and royalties), and current surpluses of government enterprises (such as the Postal Service). As discussed above, those surpluses, as well as interest and some other receipts, previously were recorded on the expenditure side of the NIPAs' federal sector as offsetting (negative) expenditures.

In the NIPAs, the government's expenditures are classified according to their purpose. The major groups, which are much fewer than those in the federal budget, are consumption expenditures, or purchases of goods and services (broken out for defense and nondefense purchases); transfer payments (to individuals, governments, and the rest of the world); interest payments; and subsidies to businesses and to government enterprises.

Defense and nondefense consumption of goods and services consists of purchases made by the government for its immediate use in production. (The largest portion of such consumption is the compensation of military and civilian federal employees.) Among the government's consumption expenditures, the consumption of fixed capital—depreciation—represents a partial measure of the services that the government receives from its stock of fixed assets, such as buildings or equipment.

Table B-2.

Projections of Baseline Receipts and Expenditures as Measured by the National Income and Product Accounts

(Billions of dollars)

	Actual 2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
						Receipts						
Current Tax Receipts												
Personal current taxes	779	879	965	1,059	1,150	1,238	1,331	1,525	1,676	1,783	1,890	2,003
Taxes on corporate income	209	225	247	245	266	276	280	287	296	307	319	331
Taxes on production and imports	89	97	102	106	110	113	117	122	126	129	134	135
Taxes from the rest of the world	8	9	10	11	12	13	14	16	18	19	20	21
Subtotal	1,086	1,209	1,324	1,421	1,538	1,640	1,742	1,950	2,115	2,238	2,363	2,490
Contributions for Government Social Insurance[a]	790	840	902	955	1,003	1,054	1,109	1,164	1,221	1,281	1,343	1,408
Current Transfer Receipts	26	28	30	30	31	33	35	36	38	40	42	44
Income Receipts on Assets	23	25	26	26	27	28	28	29	30	30	32	33
Current Surpluses of Government Enterprises	5	6	6	5	5	5	6	6	6	6	6	6
Current Receipts	**1,930**	**2,109**	**2,286**	**2,438**	**2,605**	**2,761**	**2,919**	**3,184**	**3,411**	**3,596**	**3,787**	**3,981**
						Expenditures						
Consumption Expenditures												
Defense												
Consumption	406	411	392	387	395	404	414	424	434	445	456	467
Consumption of fixed capital	63	64	64	65	66	66	67	68	69	69	70	71
Nondefense												
Consumption	201	219	228	236	241	247	253	259	265	272	280	287
Consumption of fixed capital	24	24	25	25	25	26	26	27	27	27	28	28
Subtotal	694	719	709	713	728	743	760	777	795	814	833	853
Current Transfer Payments												
Government social benefits												
To persons	986	1,041	1,129	1,206	1,266	1,333	1,410	1,492	1,568	1,671	1,779	1,896
To the rest of the world	3	3	3	3	3	4	4	4	4	4	5	5
Subtotal	989	1044	1,132	1,209	1,269	1,337	1,414	1,496	1,573	1,675	1,784	1,901
Other transfer payments												
Grants-in-aid to state and local governments	349	363	372	387	405	425	449	475	502	532	565	600
To the rest of the world	25	27	27	25	24	24	24	24	24	24	25	26
Subtotal	374	390	399	412	429	449	472	498	526	557	590	625
Interest Payments	217	236	274	315	343	364	382	396	403	405	408	407
Subsidies	40	54	50	49	46	45	45	45	45	45	46	46
Current Expenditures	**2,315**	**2,443**	**2,565**	**2,698**	**2,816**	**2,937**	**3,073**	**3,212**	**3,343**	**3,497**	**3,661**	**3,833**
						Net Federal Government Saving						
Net Federal Government Saving	**-384**	**-334**	**-278**	**-260**	**-211**	**-177**	**-154**	**-28**	**68**	**100**	**125**	**148**

Source: Congressional Budget Office.

a. Includes Social Security taxes, Medicare taxes and premiums, and unemployment insurance taxes.

Transfer payments (cash payments made directly to individuals and the rest of the world as well as grants to state and local governments or foreign nations) constitute another grouping. Most of the transfers to individuals are for social benefits.[15] Grants-in-aid are payments that the federal government makes to state or local governments, which generally use them for transfers (such as benefits provided by the Medicaid program) and consumption (such as the hiring of additional police officers). Grants-in-aid to foreigners include federal purchases of military equipment for delivery to foreign governments.

The NIPAs' category for federal interest payments shows only payments and thus differs from the budget, which contains a category labeled "net interest." In the NIPAs, federal interest receipts are classified with other federal receipts.

The NIPAs' category labeled "subsidies" primarily consists of grants paid by the federal government to businesses, including state and local government enterprises such as public housing authorities. Federal housing and agricultural assistance have dominated that category.

Net federal government saving in the NIPAs is the difference between the current receipts and the current expenditures of the federal sector. It is a component of net national saving (which also includes net saving by the state and local government sector, personal saving, and corporate retained earnings) and thus a partial measure of how much of the nation's income earned from current production is not consumed in the current period. Net federal saving (or dissaving) is not a good indicator of federal borrowing requirements because, unlike the budget deficit or surplus, it is not a measure of cash flows.[16]

15. In its July 2004 data revisions, BEA published a revised estimate of government social benefits to individuals for 2003 that was significantly below its previously reported estimate, including a downward revision to its estimate of Medicare benefits. See "Annual Revision of the National Income and Product Accounts: Annual Estimates, 2001-2003, and Quarterly Estimates, 2001: 2004-I," *Survey of Current Business* (August 2004). For 2004, CBO estimates the effect of the 2003 revisions to be about $17 billion, nearly half of it in Medicare benefits. Although CBO considers recent budget data more consistent with the higher estimates shown in the NIPAs before the July revisions, it nevertheless has adopted BEA's estimate for 2004 in Tables B-1 and B-2 presented here. Over the next few years, CBO's forecast gradually removes its estimate of the effects of BEA's revisions to the level of social benefits other than Medicare, phasing it out fully by 2007. However, on the basis of available information about BEA's methodology for its Medicare estimates, CBO is tentatively extending its estimate of the downward adjustment to Medicare benefits throughout the 2006-2015 projection period.

16. As an addendum in NIPA Table 3.2, BEA publishes a measure labeled "net lending or net borrowing," which is closer to a cash or financial measure in several ways. Like the budget, it includes investment purchases as expenditures because those purchases must be financed from current receipts or from federal borrowing. At the same time, it excludes consumption of fixed capital (depreciation) because those accounting charges are not a drain on current financial resources. In addition, it includes receipts from the sale of assets that are not produced, as well as capital transfer receipts (for example, estate and gift taxes) and capital transfer payments (for example, investment grants to state and local governments), which are not part of current receipts or expenditures in the NIPAs but do affect cash flows. Despite those adjustments, net federal lending or borrowing in the NIPAs differs from the budget deficit or surplus because of all of the other differences in timing and coverage that distinguish the NIPAs from the budget. BEA presents those differences in NIPA Table 3.18, which is similar to Table B-1 presented here.

APPENDIX

C

Budget Resolution Targets and Actual Outcomes

Budget resolution targets, adopted by both Houses of Congress in most years, specify proposed levels of revenues and spending for the upcoming fiscal year. The targets in the 2004 concurrent budget resolution, adopted in April 2003, yielded a proposed budget deficit of $385 billion. However, the deficit for fiscal year 2004 was $412 billion—$27 billion more than the deficit that the budget resolution anticipated.

In 2004, revenues were $1,880 billion, only about $3 billion lower than expected for the year. Total outlays, at $2,292 billion, ended up being $24 billion higher than anticipated, primarily because of outlays from supplemental appropriations that were not contemplated in the budget resolution.

Elements of the Analysis

The budget resolution—which consists of targets for revenues, spending, the deficit or surplus, and debt held by the public—is a concurrent resolution adopted by both Houses of Congress that sets forth the Congressional budget plan over five or more fiscal years. The resolution does not itself become law; instead, it is implemented through subsequent legislation. That legislation includes appropriation laws that are intended to adhere to limits set for discretionary spending, as well as changes in the laws that affect revenues and spending. Those changes are sometimes in response to reconciliation instructions in the resolution, as was the case in 2004.

For this analysis, the differences between the levels specified in the budget resolution and the actual outcomes are allocated among three categories: policy, economic, and technical. Although those categories help explain the discrepancies, the divisions are inexact and necessarily somewhat arbitrary.

Differences attributed to policy derive from enacted legislation not anticipated in the resolution or enacted legislation that was estimated to cost a different amount than the resolution originally assumed. Differences attributed to policy may also reflect lawmakers' decisions not to enact legislation that the budget resolution assumed would pass. To identify such differences arising from legislation, the Congressional Budget Office (CBO) normally uses the cost estimates that it prepared at the time the legislation was enacted. (To the extent that the actual budgetary impact is different from what CBO estimated, that difference is characterized as a technical change.)

A key element in preparing the budget resolution is forecasting how the economy will perform in the upcoming fiscal year. Since 1992, the Congress has adopted the most recent economic assumptions published by CBO.[1] CBO's economic forecast for the budget resolution is usually made more than nine months before the fiscal year begins. Forecasting the economy is an uncertain endeavor, and, almost invariably, the economy's actual performance differs from the forecast. Nevertheless, every resolution is based on assumptions about numerous economic variables—mainly, gross domestic product (GDP), taxable income, unemployment, inflation, and interest rates. Those assumptions are used to estimate revenues, spending for benefit programs, and net interest. In CBO's analysis, differences that can be linked directly to the agency's economic forecast are labeled economic.

Technical differences between the budget resolution targets and actual outcomes are those variations that do not arise directly from legislative or economic sources as categorized. In the case of revenues, technical differences

1. The Congress used the Administration's forecast in the resolutions for 1982, 1986, 1989, 1990, and 1992. The budget resolutions for 1983 and 1991 were based on assumptions developed by the budget committees' staff.

stem from a variety of factors, including changes in administrative tax rules, differences in the sources of taxable income that are not captured by the economic forecast, and changes in the amounts of income taxed at the various rates. In the case of many benefit programs, factors such as an unanticipated change in the number of beneficiaries, unforeseen utilization of health care services, changes in farm commodity prices, or new regulations can produce technical differences.

Comparing the Budget Resolution and Actual Outcomes for Fiscal Year 2004

The budget resolution for 2004 adopted the economic assumptions that CBO published in January 2003, which also underpinned CBO's March 2003 baseline prepared in conjunction with the agency's analysis of the President's 2004 Budget. Using those assumptions and incorporating planned policy changes, the resolution established the following targets for the year: total revenues of $1,883 billion, outlays of $2,268 billion, and a deficit of $385 billion (see Table C-1). Ultimately, revenues were lower by $3 billion and outlays were higher by $24 billion, resulting in a deficit that was $27 billion higher than the one anticipated in the resolution. Policy differences—primarily in the form of unanticipated discretionary outlays—raised the deficit by $44 billion relative to the target (see Table C-2). Conversely, a stronger-than-expected economy lowered the deficit by $27 billion compared to the target. Technical factors, mostly on the revenue side, accounted for the remainder of the difference (raising the deficit by $10 billion).

Differences Arising from Policy Changes

Of the many proposals incorporated in the budget resolution—some from the President's budget for 2004 and some originating in the Congress—a portion were eventually enacted (although sometimes in a different form than originally envisioned), and a portion were not. In addition, some legislation was enacted that was not envisioned in the resolution. In total, policy actions taken (or assumed but not taken) after the budget resolution targets were established increased the deficit by about $44 billion from the total assumed in the resolution. That net amount reflects $9 billion more in revenues and $53 billion more in outlays than the resolution assumed.

The resolution adopted most of the President's proposed tax cuts, including an economic growth package assumed to reduce revenues by $136 billion in 2004 and by $543 billion over the 2004-2013 period. When enacted, the Jobs and Growth Tax Relief Reconciliation Act of 2003, or JGTRRA, was estimated to lower 2004 revenues by roughly that amount. However, several other pieces of legislation expected to further reduce revenues were not enacted.

Table C-1.

Comparison of Budget Resolution Targets and Actual Budget Totals, 2004

(Billions of dollars)

	Budget Resolution Targets	Actual Budget Totals	Actual Minus Resolution
Revenues	1,883	1,880	-3
Outlays	2,268	2,292	24
Deficit (-)	-385	-412	-27

Source: Congressional Budget Office using data from H. Con. Res. 95, Concurrent Resolution on the Budget for Fiscal Year 2004 (adopted April 10, 2003).

Notes: The figures include amounts in the Social Security trust funds and the net cash flow of the Postal Service, which are off-budget.

These comparisons differ from those in the chapters of this volume, where differences are measured relative to CBO's baseline projections.

The resolution assumed that discretionary outlays in 2004 would total $861 billion—consistent with the level of budget authority in the President's request, adjusted for expected outlays from the April 2003 supplemental appropriations for operations in Iraq and Afghanistan. In fact, new supplementals drove discretionary budget authority $117 billion higher than anticipated in the resolution. Most of that amount stemmed from additional costs of the ongoing operations in Iraq and Afghanistan, which were funded in supplemental appropriation laws in November 2003 (Public Law 108-106) and August 2004 (P.L. 108-287). Supplemental spending thus accounted for much of the $47 billion overage in discretionary outlays attributable to legislation.

Differences arising from policy changes accounted for $8 billion of the mandatory outlays not anticipated in the resolution for 2004. Most important, mandatory spending was altered by legislation not contemplated in the budget resolution. The Unemployment Compensation

Table C-2.

Sources of Differences Between Budget Resolution Targets and Actual Budget Totals, 2004

(Billions of dollars)

	Differences Arising from			
	Policy Changes	Economic Factors	Technical Factors	Total Differences
Revenues	9	8	-20	-3
Outlays				
Discretionary spending	47	*	-12	34
Mandatory spending[a]	8	-4	-4	-1
Net Interest	-1	-14	6	-9
Total	**53**	**-19**	**-10**	**24**
Effect on Deficit	-44	27	-10	-27

Sources: Congressional Budget Office using data from H. Con. Res. 95, Concurrent Resolution on the Budget for Fiscal Year 2004 (adopted April 10, 2003) and the Office of Management and Budget.

Notes: Differences are actual outcomes minus budget resolution targets. Positive differences denote a reduction in the deficit; negative differences denote an increase.

These comparisons differ from those in the chapters of this volume, where differences are measured relative to CBO's baseline projections.

* = between -$500 million and $500 million.

a. Includes offsetting receipts.

Amendments of 2003 (P.L. 108-26), which further extended emergency unemployment benefits for recipients whose regular benefits would be exhausted before the end of December 2003, were enacted in May of 2003—at an estimated cost of $5 billion. In addition, JGTRRA included $10 billion in fiscal assistance to the states, with $5 billion of that amount for 2004 (and the first $5 billion in 2003).

The resolution's largest proposal for mandatory spending—albeit in years beyond 2004—was a prescription drug benefit for Medicare recipients. The budget resolution allowed for a program with costs totaling $400 billion over the decade, including $7 billion in 2004 to implement the proposal. Enacted in late 2003, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 in fact boosted outlays in 2004 by an estimated $4 billion, or $3 billion less than anticipated by the budget resolution.

Other policy proposals assumed in the budget resolution were not enacted. For example, a proposal for health insurance tax credits that would have increased outlays by $50 billion from 2004 through 2013 was incorporated into the resolution but did not pass. (The effect in 2004 would have been small.)

Differences Arising from Economic Factors

Overall, the economic assumptions underlying the 2004 budget resolution proved to be reasonably accurate. Small deviations from the forecast led to revenues that turned out to be $8 billion (0.4 percent) higher than presumed and outlays that were $19 billion (about 1 percent) lower.

The resolution assumed that real GDP would grow by 2.4 percent in 2003 and by 3.4 percent in 2004, but, in actuality, GDP growth for those years was 2.5 percent and 4.6 percent, respectively. The stronger-than-anticipated recovery raised the level of nominal GDP compared to that anticipated by the resolution. Corporate profits were higher and personal incomes were lower than anticipated.

Mandatory spending is also sensitive to changes in the economic forecast. Although such spending flows from the provisions of permanent laws, the spending for many mandatory programs is keyed to the economy. As a result, mandatory outlays for programs such as unemployment

insurance and the refundable portion of the earned income tax credit decreased as the economy gained strength. Higher-than-expected inflation caused some offsetting increases in certain programs pegged to those indicators, but, overall, for economic reasons, mandatory outlays turned out to be $4 billion lower than the level assumed by the resolution.

Lower-than-anticipated interest rates drove projected outlays for net interest payments below the level assumed in the budget resolution. Most significantly, the resolution assumed that short-term (91-day Treasury) interest rates would average 2.9 percent in 2004; however, as a result of actions by the Federal Reserve, those rates averaged just 1.1 percent for the year. Consequently, outlays for net interest were $14 billion less than anticipated in the budget resolution.

Differences Arising from Technical Factors

Differences arising from technical factors—that is, differences between budget resolution targets and actual outcomes that cannot be traced to legislation or CBO's economic forecast—lowered revenues by $20 billion (about 1 percent) and outlays by $10 billion (0.4 percent) relative to the target levels. On balance, because of technical factors, the deficit was $10 billion higher than anticipated in the budget resolution.

Some of the decrease in anticipated revenues may have been related to economic factors (for example, decreased capital gains realizations) or may have resulted from economic factors that will be revealed in future revisions to economic variables; however, a full analysis of the 2004 results cannot be done now because information about sources of individual income typically lags behind the tax year by a couple of years.

The decrease in outlays attributable to technical differences resulted from slower-than-expected discretionary spending, as well as slightly slower spending in a host of mandatory programs. Debt-service costs were higher than expected, mostly because of the technical factors that reduced projected revenues.

Comparing Budget Resolutions and Actual Outcomes for Fiscal Years 1980 Through 2004

At the end of each fiscal year, actual revenues and outlays have always differed to varying degrees from budget resolution targets for that fiscal year. Over the 1980-1992 period, the deficit consistently exceeded the target in the resolution by amounts ranging from $4 billion in 1984 to $119 billion in 1990 (see Table C-3). That pattern changed in 1993, in part because spending for deposit insurance was substantially lower than expected. From 1994 through 2000, actual outcomes continued to be more favorable than the targets (with the exception of 1999, when there was no conference agreement on a budget resolution). However, in 2001, lower-than-expected revenues and higher-than-anticipated outlays combined to reduce the surplus to less than what was envisioned in the resolution. In 2002, those trends continued and caused very large differences from the resolution's envisioned surplus, resulting in a deficit of $158 billion that year. In 2003, there was no conference agreement for a budget resolution. In 2004, lower-than-expected revenues and higher-than-anticipated outlays caused the deficit to be larger than planned, but the difference was relatively small.

Differences Arising from Policy Changes

From 1980 through 2004, policy action or inaction (for example, the failure to achieve savings called for in a budget resolution) decreased the surplus or increased the deficit by an average of $19 billion a year compared with the target. In only four of those years did policymakers trim the deficit more, or add to it less, than the resolution provided. The largest differences attributable to policy changes occurred in three consecutive years, decreasing the surplus by $61 billion in 2000, $95 billion in 2001, and $56 billion in 2002 in comparison with the targets. In 2004, as described, policy changes increased the deficit by $44 billion. (By contrast, from 1980 through 1998, the differences ascribed to policy changes averaged less than $10 billion a year.)

Most of the impact stemming from legislation over the period was on the outlay side of the budget. On average, policy decisions added about $17 billion a year to the

Table C-3.

Sources of Differences Between Budget Resolution Targets and Actual Budget Totals, 1980 to 2004

(Billions of dollars)

	Differences Arising from			Total Differences	Total Differences as a Percentage of Actual Outcomes
	Policy Changes	Economic Factors	Technical Factors		
			Revenues		
1980	6	8	-4	11	2.1
1981	-4	5	-13	-11	-1.8
1982	13	-52	-1	-40	-6.5
1983	-5	-58	-3	-65	-10.8
1984	-14	4	-4	-13	-2.0
1985	*	-20	3	-17	-2.3
1986	-1	-23	-2	-27	-3.5
1987	22	-27	7	2	0.2
1988	-11	4	-17	-24	-2.6
1989	1	34	-8	26	2.6
1990	-7	-36	9	-34	-3.3
1991[a]	-1	-31	-24	-56	-5.3
1992	3	-46	-34	-78	-7.1
1993	4	-28	3	-20	-1.7
1994	-1	12	4	15	1.2
1995	*	16	1	17	1.3
1996	-1	24	12	36	2.5
1997	20	44	46	110	7.0
1998	-1	62	59	120	7.0
1999	n.a.	n.a.	n.a.	n.a.	n.a.
2000	3	78	68	149	7.4
2001	-65	25	26	-14	-0.7
2002	-9	-125	-183	-317	-17.1
2003	n.a.	n.a.	n.a.	n.a.	n.a.
2004	9	8	-20	-3	-0.2
Average	-2	-5	-3	-10	-1.6
Absolute Average[b]	9	33	24	52	4.2
			Outlays		
1980	20	12	16	48	8.1
1981	25	6	16	47	6.9
1982	1	24	8	33	4.4
1983	18	*	8	26	3.2
1984	1	7	-18	-9	-1.1
1985	23	-5	-13	5	0.5
1986	14	-12	20	22	2.2
1987	7	-12	13	8	0.8
1988	-2	12	12	22	2.1
1989	17	14	12	43	3.8
1990	13	13	59	85	6.8
1991[a]	-19	1	-22	-40	-3.0
1992	15	-21	-60	-66	-4.8
1993	16	-19	-90	-92	-6.5
1994	10	-9	-36	-35	-2.4
1995	2	17	-14	6	0.4
1996	25	-24	-29	-28	-1.8
1997	15	7	-43	-21	-1.3

Continued

Table C-3.
Continued

(Billions of dollars)

	Differences Arising from			Total Differences	Total Differences as a Percentage of Actual Outcomes
	Policy Changes	Economic Factors	Technical Factors		
1998	5	-9	-37	-41	-2.5
1999	n.a.	n.a.	n.a.	n.a.	n.a.
2000	65	-1	-10	54	3.0
2001	30	-1	0	29	1.6
2002	46	-5	18	59	2.9
2003	n.a.	n.a.	n.a.	n.a.	n.a.
2004	53	-19	-10	24	1.0
Average	17	-1	-9	8	1.1
Absolute Average[b]	19	11	24	37	3.1
			Effect on Surplus or Deficit[c]		
1980	-13	-4	-19	-36	-6.1
1981	-28	-1	-29	-58	-8.6
1982	12	-76	-9	-73	-9.8
1983	-22	-59	-11	-92	-11.4
1984	-15	-3	14	-4	-0.5
1985	-23	-15	16	-22	-2.3
1986	-16	-11	-22	-49	-4.9
1987	15	-15	-6	-6	-0.6
1988	-9	-8	-29	-46	-4.3
1989	-17	20	-20	-17	-1.5
1990	-20	-49	-50	-119	-9.5
1991[a]	19	-32	-2	-15	-1.1
1992	-12	-25	26	-11	-0.8
1993	-12	-9	93	72	5.1
1994	-11	21	40	50	3.4
1995	-2	-2	15	11	0.7
1996	-25	48	40	63	4.0
1997	5	37	89	131	8.2
1998	-7	71	97	160	9.7
1999	n.a.	n.a.	n.a.	n.a.	n.a.
2000	-61	79	77	95	5.3
2001	-95	26	26	-43	-2.3
2002	-56	-119	-202	-376	-18.7
2003	n.a.	n.a.	n.a.	n.a.	n.a.
2004	-44	27	-10	-27	-1.2
Average	-19	-4	5	-18	-2.0
Absolute Average[b]	23	33	41	69	5.2

Source: Congressional Budget Office.

Notes: Differences are actual outcomes minus budget resolution targets. Positive differences denote an increase in the surplus or a reduction in the deficit; negative differences denote a decrease in the surplus or an increase in the deficit.

CBO allocates differences among the three categories soon after the fiscal year ends, so later changes in economic data are not reflected in those allocations.

* = less than $500 million; n.a. = not applicable (there was no budget resolution in 1999 and 2003).

a. Based on the budget summit agreement for fiscal year 1991 (as assessed by CBO in December 1990).

b. The absolute average disregards whether the differences are positive or negative.

c. In the case of the deficit or surplus, total differences are calculated as a percentage of actual outlays.

spending totals. In fact, 1988 and 1991 were the only years in which legislative action held outlays below the budget resolution targets. The biggest difference due to policy changes was in 2000, when the effects of legislation increased outlays by about $65 billion, mostly from higher-than-expected discretionary appropriations and unanticipated assistance to farmers and agricultural producers. The difference in 2004 was second largest: a $53 billion increase in outlays, primarily resulting from the unanticipated discretionary spending discussed above. On the revenue side of the budget, the largest difference arising from policy changes occurred in 2001, when the Economic Growth and Tax Relief Reconciliation Act reduced taxes by $65 billion more than was anticipated by the resolution. By contrast, in 2002 and 2004 that difference was, respectively, a $9 billion reduction and a $9 billion increase.

Differences Arising from Economic Factors

Inaccuracies in the economic forecast over the 1980-2004 period had a small net effect on the cumulative variation between resolution targets and actual outcomes. However, large differences occurred in many years—deviations that were mostly negative before 1994 and positive more recently (except for 2002). Until 1993, budget resolutions tended to use short-term economic assumptions that proved optimistic. The largest overestimates of deficits in the 1980s and early 1990s, not surprisingly, were in years marked by recession or the early stages of recovery—namely, in 1982 and 1983, and over the 1990-1992 period. In 2002, the economic assumptions were again too optimistic, resulting in a $119 billion difference between the budget resolution target and actual outcome—contributing to that year's deficit, despite the fact that the resolution had envisioned a surplus. In contrast, the improving economy during this past year meant that the economic assumptions underlying the 2004 resolution were not optimistic enough: as a result, economic factors pulled the deficit $27 billion lower than what was assumed in the budget resolution.

In absolute terms (disregarding whether the errors were positive or negative), the typical difference in the surplus or deficit attributable to incorrect economic assumptions was about $33 billion a year over the 1980-2004 period. Regardless of the direction of the errors in the forecasts, differences between the resolutions' assumptions and what happened in the economy primarily affected revenues.

Differences Arising from Technical Factors

Technical factors accounted for differences between budget resolution targets and actual surpluses or deficits that averaged $5 billion a year over the past 25 years. In absolute terms, however, such differences caused the targets to be off by $41 billion, on average. Overall, those deviations were about equally represented on the revenue and outlay sides of the budget.

The magnitude and causes of the differences ascribed to technical factors have varied over the years. On the revenue side, technical misestimates were generally not very large through 1990, but the budget resolutions significantly overestimated revenues in 1991 and 1992, when tax collections were weaker than economic data suggested. From 1997 through 2001, revenues were much higher than the budget resolution targets, but in 2002, the resolution again overestimated tax collections by $183 billion. Technical factors lowered revenues in 2004 by $20 billion compared to the amount anticipated in the resolution.

Misestimates arising from technical factors have also shown up on the outlay side of the budget. Through the mid-1980s, discrepancies in estimating receipts from offshore oil leases and spending on farm price supports, defense, and entitlement programs were the dominant technical differences. In addition, in the early 1990s, during the savings and loan crisis, outlays for deposit insurance were a major source of discrepancies attributable to technical factors. In recent years, technical differences between the resolutions' estimates of outlays and actual outlays have been spread among a variety of programs. In 2004, the difference was a relatively small $10 billion.

Differences as a Percentage of Actual Revenues or Outlays

Because the federal budget has grown considerably since 1980, differences between the revenue and spending levels in the budget resolutions and actual outcomes over the 1980-2004 period may be best compared as a percentage of total revenues or outlays. The total difference for revenues for 2004, at 0.2 percent below the budget resolution target, was much smaller than the absolute average of 4.2 percent over the 25-year period. Outlays in 2004 were 1.0 percent above the budget resolution target—also lower than the 3.1 percent absolute average difference for the years 1980-2004.

The size of the total difference between actual deficits or surpluses and the deficits or surpluses anticipated in budget resolutions depends in large part on whether the differences in revenues and outlays offset each other. For years in which the discrepancies in revenues and outlays affected the surplus or deficit in opposite ways, the total difference dropped to as little as 0.5 percent of actual outlays. But in other years, the discrepancies for both revenues and outlays affected the surplus or deficit in the same way. From 1980 to 2004, the differences between estimates of revenues and outlays in the budget resolutions and the actual amounts went in the same direction relative to the deficit or surplus in 14 of the 25 years. Although the 2004 outcomes exhibit the same pattern, the magnitude of the differences is much smaller.

APPENDIX

D

Forecasting Employers' Contributions to Defined-Benefit Pensions and Health Insurance

Most nonwage compensation that employees receive is exempt from income tax. During the next several years, two categories of such compensation—employers' contributions to private defined-benefit pension funds and premiums that employers pay for their employees' group health insurance—are likely to grow rapidly. That growth will reduce the taxable portion of employees' compensation, corporate profits, and the income base on which the corporate tax is levied.

Contributions to Defined-Benefit Pensions

In recent years, employers' contributions to defined-benefit pension plans have surged. According to the national income and product accounts (NIPAs), such contributions more than doubled from 2001 ($36.0 billion) to 2002 ($77.2 billion) and then jumped (to $102.8 billion) in 2003. The growth in contributions occurred because many plans had become underfunded, in some cases by substantial amounts. (Being "underfunded" means that the plans' assets are insufficient to meet their projected liabilities—the pensions owed to current workers and retirees and their survivors.) The plans' underfunding contrasted with the situation that prevailed during the late 1990s, as the boom in the stock market left many plans overfunded. In that instance, not only were firms not required to contribute to defined-benefit plans but they were discouraged from doing so by limits on the tax deductibility of contributions to overfunded plans. When stock prices declined between 2000 and 2002, the value of assets fell, and many plans abruptly became underfunded.

A pension plan's projected liabilities depend on the stream of payments that it expects to make, taking into account its rules and actuarial assumptions about mortality. A further, critical element is the interest rate used to compute the present value—the value in today's dollars—of future payments. The lower the interest rate, the lower the rate at which payments are discounted and, consequently, the higher the value of future payments in today's dollars. Under the Employment Retirement Income Security Act of 1974, which sets minimum standards for funding pension plans in private industry, the interest rate used for discounting must be no more than 105 percent of a weighted average of interest rates on 30-year Treasury securities over the previous four-year period.[1] The 2000-2002 decline in stock prices, however, coincided with a sharp fall in long-term interest rates—which exacerbated the emerging underfunding.

Defined-benefit pension plans received some temporary relief from falling interest rates under the Job Creation and Worker Assistance Act of 2002 (JCWAA) and the Pension Funding Equity Act of 2004. (JCWAA allowed plans to set a rate equal to 120 percent of the weighted-average 30-year Treasury rate in 2002 and 2003; the pension funding act stipulated that for 2004 and 2005, the maximum applicable rate would be a weighted average of rates on amounts "conservatively invested in long-term corporate bonds.") As a result, the maximum applicable rate for most plans was 6.65 percent in 2003 and 6.55 percent in 2004. (Without the legislation, it would have been about 5.8 percent in 2003 and about 5.5 percent in 2004.) The Congressional Budget Office (CBO) estimates that contributions in 2004 to private defined-benefit plans dropped to about $74 billion, or roughly $80 billion below what they would have been without the

1. The Department of the Treasury no longer issues 30-year securities. Consequently, the Internal Revenue Service has published a substitute applicable rate based on the 30-year Treasury bonds that mature in February 2031.

temporary relief provided by the Pension Funding Equity Act.

One consequence of that temporary relief is that the assets of defined-benefit pension plans are now further out of line with their liabilities than they would otherwise be, meaning that future contributions will probably have to be larger. CBO projects that for 2005, defined-benefit contributions will jump to $143 billion, reflecting the lower contribution level in 2004 as well as a decline—to 6.10 percent—in the maximum interest rate applicable to most plans.[2] Under current law, contributions in 2006 are projected to more than double, to about $300 billion, with the expiration of the temporary relief measures and the resultant fall—to about 5.5 percent, based on CBO's interest rate forecast—in the maximum applicable interest rate. But as that year's contributions diminish the funding gap and the interest rate moves upward toward its estimated long-run average of 6.4 percent, contributions in CBO's estimation will fall to about $250 billion for 2007, about $200 billion for 2008, and slightly over $100 billion annually by 2015.[3]

A number of factors—including the future path of stock prices, the risk of default on pension plans' obligations, and changes in interest rates—could make those catch-up contributions either larger or smaller than CBO is forecasting. Several years of rising stock prices could increase the value of assets by enough to eliminate the underfunding in many plans. Conversely, poor performance of the stock market could drive some of the most distressed plans into default, shifting the burden of payments from a plan's sponsors to the federal Pension Benefit Guaranty Corporation. (However, a weak stock market would probably also substantially increase the contributions required for defined-benefit plans that remained in existence.) Although CBO does not attempt to forecast stock prices, it does take their variability into account when projecting defined-benefit contributions (in part because greater variation in stock prices raises the probability that any given defined-benefit plan will go into default). Interest rates are also a factor in such projections. Thus, a large and sustained increase in rates—rendering them higher than the interest rate assumptions incorporated in CBO's baseline—would help lessen the catch-up contributions that firms were required to make.

Contributions to Medical Insurance Premiums

Over the past two decades, fluctuations in the share of compensation that employees receive in the form of benefits have been heavily influenced by employers' contributions to health insurance coverage. Health insurance benefits rose modestly as a share of compensation throughout the 1980s and then surged—between 1987 and 1993, their share of compensation rose from 4.6 percent to 6.2 percent, as employers' hourly cost of providing health insurance (total contributions divided by total hours worked) grew at a double-digit rate (see Figure D-1). But by 1997, the health insurance share of total compensation had fallen to 5.3 percent, as the pace of hourly cost increases slowed sharply.

Since 1998, the growth of those costs has accelerated again—by so much that in 2003, the share of compensation attributable to health insurance reached a record 6.8 percent. Data from the employment cost index indicate that increases in employers' hourly insurance costs for private-sector workers again reached double digits in 2002 and 2003, but by the third quarter of 2004, the year-over-year increase had slowed to 7.3 percent—still roughly double the 3.7 percent rise in total hourly compensation.

CBO expects that over the next several years, the rate of increase in employers' hourly costs for health insurance will continue to slow but still grow at a pace faster than that of overall compensation. A survey of employers by Mercer Human Resources Consulting indicated an average expected rate of increase in health insurance premiums (those paid by the employer and the employee) per active employee of 6.6 percent in 2005, down from 7.5 percent in 2004.[4] During the next several years, the growth of employers' health insurance costs may continue to slow, in part because excess "profits" received by nonprofit insurers will restrain the growth of premiums. However, any slowdown will be limited because the

2. That rate, which comes from the Internal Revenue Service's corporate bond rate table, represents the corporate bond weighted-average interest rate for plan years beginning in January 2005. (Most plans' years begin in January.)

3. That long-run average is based on an assumed spread of 0.6 percentage points between the rates on 10-year and 30-year Treasury securities.

4. Additional details are available at www.mercerhr.com/pressrelease/details.jhtml/dynamic/idContent/1162645.

aging of the workforce and the ongoing introduction of expensive new medical technologies are likely to push medical costs higher.

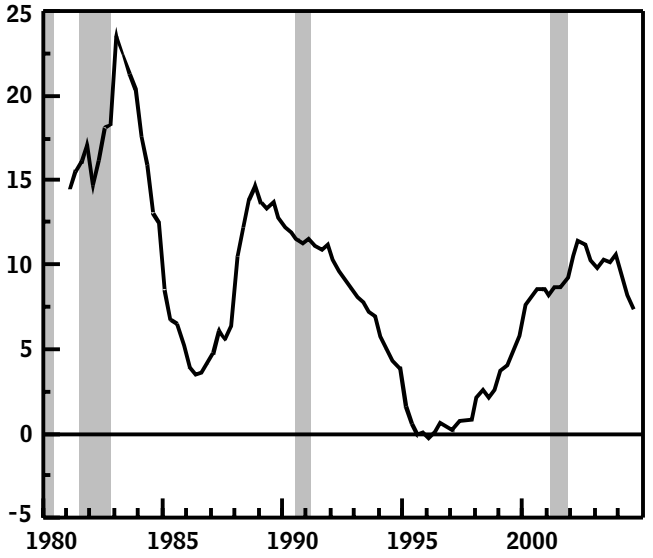
Implications for Projecting Income Shares and Revenues

Increases in employers' contributions to pensions and health insurance would, at first glance, boost labor's share of national income, resulting in lower profits and hence a smaller share of taxable income. However, the available evidence suggests that over a period of several years, most of the increased cost of those contributions will ultimately be borne by workers in the form of reduced wages or other benefits. Consequently, any effect that such increased costs might have on how income is distributed between labor and capital within the NIPAs would be short-lived; in fact, CBO's forecast incorporates the assumption that employers will be able to anticipate both regular pension contributions and increases in health insurance premiums and will take them into account in setting wages. Thus, changes in those factors will have no effect on labor's share of gross domestic product. However, required catch-up contributions to defined-benefit pension plans reflect the belated realization of previously incurred, or "sunk," costs rather than compensation for current workers (even though such contributions are treated as compensation in the NIPAs). Therefore, CBO assumes that catch-up contributions will not be offset by reductions in other forms of compensation and will continue to directly reduce firms' profits.

Figure D-1.

Employers' Hourly Health Insurance Costs

(Percentage change from previous year)



Sources: Congressional Budget Office; Department of Labor, Bureau of Labor Statistics.

APPENDIX

E

CBO's Economic Projections for 2005 to 2015

Year-by-year economic projections for 2005 to 2015 are shown in the accompanying tables (by calendar year in Table E-1 and by fiscal year in Table E-2). The Congressional Budget Office did not try to explicitly incorporate cyclical fluctuations into its projections for years after 2006. Instead, the projected values shown in the tables for 2007 through 2015 reflect CBO's assessment of average values for that period—which take into account the potential ups and downs of the business cycle.

Table E-1.

CBO's Year-by-Year Forecast and Projections for Calendar Years 2005 to 2015

	Estimated	Forecast		Projected								
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Nominal GDP (Billions of dollars)	11,730	12,396	13,059	13,766	14,486	15,210	15,940	16,680	17,437	18,221	19,031	19,861
Nominal GDP (Percentage change)	6.6	5.7	5.3	5.4	5.2	5.0	4.8	4.6	4.5	4.5	4.4	4.4
Real GDP (Percentage change)	4.4	3.8	3.7	3.7	3.4	3.1	2.9	2.8	2.7	2.7	2.6	2.5
GDP Price Index (Percentage change)	2.1	1.8	1.5	1.7	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Consumer Price Index[a] (Percentage change)	2.7	2.4	1.9	2.1	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Employment Cost Index[b] (Percentage change)	2.7	3.1	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Unemployment Rate (Percent)	5.5	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2
Three-Month Treasury Bill Rate (Percent)	1.4	2.8	4.0	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6
Ten-Year Treasury Note Rate (Percent)	4.3	4.8	5.4	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5
Tax Bases (Billions of dollars)												
Corporate book profits	984	1,331	1,222	1,233	1,275	1,320	1,349	1,390	1,438	1,499	1,566	1,635
Wages and salaries	5,346	5,665	5,979	6,309	6,646	6,982	7,317	7,655	8,000	8,355	8,721	9,096
Tax Bases (Percentage of GDP)												
Corporate book profits	8.4	10.7	9.4	9.0	8.8	8.7	8.5	8.3	8.2	8.2	8.2	8.2
Wages and salaries	45.6	45.7	45.8	45.8	45.9	45.9	45.9	45.9	45.9	45.9	45.8	45.8

Sources: Congressional Budget Office; Department of Commerce, Bureau of Economic Analysis; Department of Labor, Bureau of Labor Statistics; Federal Reserve Board.

Note: Percentage change is year over year.

a. The consumer price index for all urban consumers.

b. The employment cost index for wages and salaries only, private-industry workers.

Table E-2.

CBO's Year-by-Year Forecast and Projections for Fiscal Years 2005 to 2015

	Estimated	Forecast		Projected								
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Nominal GDP (Billions of dollars)	11,553	12,233	12,888	13,586	14,307	15,029	15,757	16,494	17,245	18,023	18,826	19,652
Nominal GDP (Percentage change)	6.6	5.9	5.4	5.4	5.3	5.0	4.8	4.7	4.6	4.5	4.5	4.4
Real GDP (Percentage change)	4.6	3.8	3.7	3.8	3.5	3.2	3.0	2.8	2.7	2.7	2.6	2.6
GDP Price Index (Percentage change)	1.9	2.0	1.6	1.6	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Consumer Price Index[a] (Percentage change)	2.3	2.8	1.9	2.1	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Employment Cost Index[b] (Percentage change)	2.7	3.1	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Unemployment Rate (Percent)	5.6	5.3	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2
Three-Month Treasury Bill Rate (Percent)	1.1	2.4	3.8	4.5	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6
Ten-Year Treasury Note Rate (Percent)	4.3	4.6	5.3	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5
Tax Bases (Billions of dollars)												
Corporate book profits	970	1,257	1,247	1,223	1,264	1,311	1,342	1,378	1,426	1,483	1,549	1,614
Wages and salaries	5,279	5,584	5,900	6,225	6,562	6,898	7,233	7,570	7,912	8,265	8,629	9,002
Tax Bases (Percentage of GDP)												
Corporate book profits	8.4	10.3	9.7	9.0	8.8	8.7	8.5	8.4	8.3	8.2	8.2	8.2
Wages and salaries	45.7	45.7	45.8	45.8	45.9	45.9	45.9	45.9	45.9	45.9	45.8	45.8

Sources: Congressional Budget Office; Department of Commerce, Bureau of Economic Analysis; Department of Labor, Bureau of Labor Statistics; Federal Reserve Board.

Note: Percentage change is year over year.

a. The consumer price index for all urban consumers.

b. The employment cost index for wages and salaries only, private-industry workers.

APPENDIX

F

Historical Budget Data

This appendix provides historical data for revenues, outlays, and the deficit or surplus—in forms consistent with the projections in Chapters 1, 3, and 4—for fiscal years 1962 to 2004. The data are shown in both nominal dollars and as a percentage of gross domestic product (GDP). Data for 2004 come from the Congressional Budget Office and the Office of Management and Budget. Some of the historical data have been revised since January 2004, when these tables were last published.

Federal revenues, outlays, the deficit or surplus, and debt held by the public are shown in Tables F-1 and F-2. Revenues, outlays, and the deficit or surplus have both on-budget and off-budget components. Social Security's receipts and outlays were placed off-budget by the Balanced Budget and Emergency Deficit Control Act of 1985. For the sake of consistency, the tables show the budgetary components of Social Security as off-budget prior to that year. The Postal Service was moved off-budget by the Omnibus Budget Reconciliation Act of 1989. This year, for the first time, the historical tables show the Postal Service as off-budget going back to 1972, the year it became an independent agency.

The major sources of federal revenues (including off-budget revenues) are presented in Tables F-3 and F-4. Social insurance taxes include payments by both employers and employees for Social Security, Medicare, Railroad Retirement, and unemployment insurance, as well as pension contributions by federal workers. Excise taxes are levied on certain products and services, such as gasoline, alcoholic beverages, and air travel. Estate and gift taxes are levied on property when it is transferred. Miscellaneous receipts consist of earnings of the Federal Reserve System and income from numerous fees and charges.

Total outlays for major categories of spending appear in Tables F-5 and F-6. (Those totals include both on- and off-budget outlays.) To allow comparison of historical outlays with the projections in this report, the historical data have been divided into the same spending categories as the projections. Spending controlled by the annual appropriation process is classified as discretionary. Spending governed by permanent laws, such as those that set eligibility requirements for certain programs, is considered mandatory. Offsetting receipts include the government's contributions to retirement programs for its employees, fees, charges such as Medicare premiums, and receipts from the use of federally controlled land and offshore territory. Net interest (function 900 of the budget) comprises the government's interest payments on federal debt offset by its interest income.

Tables F-7 and F-8 divide discretionary spending into its defense, international, and domestic components. Tables F-9 and F-10 classify mandatory spending by the three largest programs—Social Security, Medicare, and Medicaid—and by various general categories. Income-security programs provide benefits to recipients with limited income and assets; those programs include unemployment compensation, Supplemental Security Income, and Food Stamps. Other retirement and disability programs provide benefits to federal civilian employees, members of the military, and veterans. The category of other mandatory programs includes the activities of the Commodity Credit Corporation, TRICARE For Life (which provides health care benefits to those military retirees who are eligible for Medicare), the subsidy costs of federal student loan programs, the Universal Service Fund, the State Children's Health Insurance Program, and the Social Services Block Grant program.

The remaining tables, F-11 through F-13, show estimates of the standardized-budget deficit or surplus and its outlay and revenue components. The standardized-budget deficit or surplus (also called the structural deficit or surplus) excludes the effects that cyclical fluctuations in output and unemployment have on outlays and revenues; it also incorporates other adjustments. The change in that deficit or surplus is commonly used to measure the short-term impact of fiscal policy on aggregate demand. Table F-11 also presents estimates of potential and actual GDP.

Table F-1.

Revenues, Outlays, Deficits, Surpluses, and Debt Held by the Public, 1962 to 2004

(Billions of dollars)

			Deficit (-) or Surplus				Debt
	Revenues	Outlays	On-Budget	Social Security	Postal Service	Total	Held by the Public[a]
1962	99.7	106.8	-5.9	-1.3	n.a.	-7.1	248.0
1963	106.6	111.3	-4.0	-0.8	n.a.	-4.8	254.0
1964	112.6	118.5	-6.5	0.6	n.a.	-5.9	256.8
1965	116.8	118.2	-1.6	0.2	n.a.	-1.4	260.8
1966	130.8	134.5	-3.1	-0.6	n.a.	-3.7	263.7
1967	148.8	157.5	-12.6	4.0	n.a.	-8.6	266.6
1968	153.0	178.1	-27.7	2.6	n.a.	-25.2	289.5
1969	186.9	183.6	-0.5	3.7	n.a.	3.2	278.1
1970	192.8	195.6	-8.7	5.9	n.a.	-2.8	283.2
1971	187.1	210.2	-26.1	3.0	n.a.	-23.0	303.0
1972	207.3	230.7	-26.1	3.1	-0.4	-23.4	322.4
1973	230.8	245.7	-15.2	0.5	-0.2	-14.9	340.9
1974	263.2	269.4	-7.2	1.8	-0.8	-6.1	343.7
1975	279.1	332.3	-54.1	2.0	-1.1	-53.2	394.7
1976	298.1	371.8	-69.4	-3.2	-1.1	-73.7	477.4
1977	355.6	409.2	-49.9	-3.9	0.2	-53.7	549.1
1978	399.6	458.7	-55.4	-4.3	0.5	-59.2	607.1
1979	463.3	504.0	-39.6	-2.0	0.9	-40.7	640.3
1980	517.1	590.9	-73.1	-1.1	0.4	-73.8	711.9
1981	599.3	678.2	-73.9	-5.0	-0.1	-79.0	789.4
1982	617.8	745.7	-120.6	-7.9	0.6	-128.0	924.6
1983	600.6	808.4	-207.7	0.2	-0.3	-207.8	1,137.3
1984	666.5	851.9	-185.3	0.3	-0.4	-185.4	1,307.0
1985	734.1	946.4	-221.5	9.4	-0.1	-212.3	1,507.3
1986	769.2	990.4	-237.9	16.7	*	-221.2	1,740.6
1987	854.4	1,004.1	-168.4	19.6	-0.9	-149.7	1,889.8
1988	909.3	1,064.5	-192.3	38.8	-1.7	-155.2	2,051.6
1989	991.2	1,143.8	-205.4	52.4	0.3	-152.6	2,190.7
1990	1,032.0	1,253.1	-277.7	58.2	-1.6	-221.1	2,411.6
1991	1,055.0	1,324.3	-321.5	53.5	-1.3	-269.3	2,689.0
1992	1,091.3	1,381.6	-340.4	50.7	-0.7	-290.3	2,999.7
1993	1,154.4	1,409.5	-300.4	46.8	-1.4	-255.1	3,248.4
1994	1,258.6	1,461.9	-258.9	56.8	-1.1	-203.2	3,433.1
1995	1,351.8	1,515.8	-226.4	60.4	2.0	-164.0	3,604.4
1996	1,453.1	1,560.5	-174.1	66.4	0.2	-107.5	3,734.1
1997	1,579.3	1,601.2	-103.3	81.3	*	-21.9	3,772.3
1998	1,721.8	1,652.6	-30.0	99.4	-0.2	69.2	3,721.1
1999	1,827.5	1,701.9	1.9	124.7	-1.0	125.5	3,632.4
2000	2,025.2	1,789.1	86.3	151.8	-2.0	236.2	3,409.8
2001	1,991.2	1,863.0	-32.5	163.0	-2.3	128.2	3,319.6
2002	1,853.2	2,011.0	-317.5	159.0	0.7	-157.8	3,540.4
2003	1,782.3	2,159.9	-538.4	155.6	5.2	-377.6	3,913.4
2004	1,880.1	2,292.2	-567.4	151.1	4.1	-412.1	4,295.5

Source: Congressional Budget Office.

Note: n.a. = not applicable; * = between -$50 million and $50 million.

a. End of year.

Table F-2.

Revenues, Outlays, Deficits, Surpluses, and Debt Held by the Public, 1962 to 2004

(Percentage of GDP)

			Deficit (-) or Surplus				Debt
	Revenues	Outlays	On-Budget	Social Security	Postal Service	Total	Held by the Public[a]
1962	17.6	18.8	-1.0	-0.2	n.a.	-1.3	43.7
1963	17.8	18.6	-0.7	-0.1	n.a.	-0.8	42.4
1964	17.6	18.5	-1.0	0.1	n.a.	-0.9	40.0
1965	17.0	17.2	-0.2	*	n.a.	-0.2	37.9
1966	17.3	17.8	-0.4	-0.1	n.a.	-0.5	34.9
1967	18.4	19.4	-1.6	0.5	n.a.	-1.1	32.9
1968	17.6	20.5	-3.2	0.3	n.a.	-2.9	33.3
1969	19.7	19.4	-0.1	0.4	n.a.	0.3	29.3
1970	19.0	19.3	-0.9	0.6	n.a.	-0.3	28.0
1971	17.3	19.5	-2.4	0.3	n.a.	-2.1	28.1
1972	17.6	19.6	-2.2	0.3	*	-2.0	27.4
1973	17.6	18.7	-1.2	*	*	-1.1	26.0
1974	18.3	18.7	-0.5	0.1	-0.1	-0.4	23.9
1975	17.9	21.3	-3.5	0.1	-0.1	-3.4	25.3
1976	17.1	21.4	-4.0	-0.2	-0.1	-4.2	27.5
1977	18.0	20.7	-2.5	-0.2	*	-2.7	27.8
1978	18.0	20.7	-2.5	-0.2	*	-2.7	27.4
1979	18.5	20.1	-1.6	-0.1	*	-1.6	25.6
1980	19.0	21.7	-2.7	*	*	-2.7	26.1
1981	19.6	22.2	-2.4	-0.2	*	-2.6	25.8
1982	19.2	23.1	-3.7	-0.2	*	-4.0	28.7
1983	17.4	23.5	-6.0	*	*	-6.0	33.0
1984	17.3	22.1	-4.8	*	*	-4.8	34.0
1985	17.7	22.8	-5.3	0.2	*	-5.1	36.3
1986	17.5	22.5	-5.4	0.4	*	-5.0	39.5
1987	18.4	21.6	-3.6	0.4	*	-3.2	40.6
1988	18.1	21.2	-3.8	0.8	*	-3.1	40.9
1989	18.3	21.2	-3.8	1.0	*	-2.8	40.6
1990	18.0	21.8	-4.8	1.0	*	-3.9	42.0
1991	17.8	22.3	-5.4	0.9	*	-4.5	45.3
1992	17.5	22.1	-5.5	0.8	*	-4.7	48.1
1993	17.5	21.4	-4.6	0.7	*	-3.9	49.4
1994	18.1	21.0	-3.7	0.8	*	-2.9	49.3
1995	18.5	20.7	-3.1	0.8	*	-2.2	49.2
1996	18.9	20.3	-2.3	0.9	*	-1.4	48.5
1997	19.3	19.6	-1.3	1.0	*	-0.3	46.1
1998	20.0	19.2	-0.3	1.2	*	0.8	43.1
1999	20.0	18.6	*	1.4	*	1.4	39.8
2000	20.9	18.4	0.9	1.6	*	2.4	35.1
2001	19.8	18.5	-0.3	1.6	*	1.3	33.0
2002	17.8	19.4	-3.1	1.5	*	-1.5	34.1
2003	16.4	19.9	-5.0	1.4	*	-3.5	36.1
2004	16.3	19.8	-4.9	1.3	*	-3.6	37.2

Source: Congressional Budget Office.

Note: n.a. = not applicable; * = between -0.05 percent and 0.05 percent.

a. End of year.

Table F-3.

Revenues by Major Source, 1962 to 2004

(Billions of dollars)

	Individual Income Taxes	Corporate Income Taxes	Social Insurance Taxes	Excise Taxes	Estate and Gift Taxes	Customs Duties	Miscellaneous Receipts	Total Revenues
1962	45.6	20.5	17.0	12.5	2.0	1.1	0.8	99.7
1963	47.6	21.6	19.8	13.2	2.2	1.2	1.0	106.6
1964	48.7	23.5	22.0	13.7	2.4	1.3	1.1	112.6
1965	48.8	25.5	22.2	14.6	2.7	1.4	1.6	116.8
1966	55.4	30.1	25.5	13.1	3.1	1.8	1.9	130.8
1967	61.5	34.0	32.6	13.7	3.0	1.9	2.1	148.8
1968	68.7	28.7	33.9	14.1	3.1	2.0	2.5	153.0
1969	87.2	36.7	39.0	15.2	3.5	2.3	2.9	186.9
1970	90.4	32.8	44.4	15.7	3.6	2.4	3.4	192.8
1971	86.2	26.8	47.3	16.6	3.7	2.6	3.9	187.1
1972	94.7	32.2	52.6	15.5	5.4	3.3	3.6	207.3
1973	103.2	36.2	63.1	16.3	4.9	3.2	3.9	230.8
1974	119.0	38.6	75.1	16.8	5.0	3.3	5.4	263.2
1975	122.4	40.6	84.5	16.6	4.6	3.7	6.7	279.1
1976	131.6	41.4	90.8	17.0	5.2	4.1	8.0	298.1
1977	157.6	54.9	106.5	17.5	7.3	5.2	6.5	355.6
1978	181.0	60.0	121.0	18.4	5.3	6.6	7.4	399.6
1979	217.8	65.7	138.9	18.7	5.4	7.4	9.3	463.3
1980	244.1	64.6	157.8	24.3	6.4	7.2	12.7	517.1
1981	285.9	61.1	182.7	40.8	6.8	8.1	13.8	599.3
1982	297.7	49.2	201.5	36.3	8.0	8.9	16.2	617.8
1983	288.9	37.0	209.0	35.3	6.1	8.7	15.6	600.6
1984	298.4	56.9	239.4	37.4	6.0	11.4	17.1	666.5
1985	334.5	61.3	265.2	36.0	6.4	12.1	18.6	734.1
1986	349.0	63.1	283.9	32.9	7.0	13.3	20.0	769.2
1987	392.6	83.9	303.3	32.5	7.5	15.1	19.5	854.4
1988	401.2	94.5	334.3	35.2	7.6	16.2	20.3	909.3
1989	445.7	103.3	359.4	34.4	8.7	16.3	23.3	991.2
1990	466.9	93.5	380.0	35.3	11.5	16.7	28.0	1,032.0
1991	467.8	98.1	396.0	42.4	11.1	15.9	23.6	1,055.0
1992	476.0	100.3	413.7	45.6	11.1	17.4	27.3	1,091.3
1993	509.7	117.5	428.3	48.1	12.6	18.8	19.5	1,154.4
1994	543.1	140.4	461.5	55.2	15.2	20.1	23.2	1,258.6
1995	590.2	157.0	484.5	57.5	14.8	19.3	28.6	1,351.8
1996	656.4	171.8	509.4	54.0	17.2	18.7	25.5	1,453.1
1997	737.5	182.3	539.4	56.9	19.8	17.9	25.5	1,579.3
1998	828.6	188.7	571.8	57.7	24.1	18.3	32.7	1,721.8
1999	879.5	184.7	611.8	70.4	27.8	18.3	34.9	1,827.5
2000	1,004.5	207.3	652.9	68.9	29.0	19.9	42.8	2,025.2
2001	994.3	151.1	694.0	66.2	28.4	19.4	37.8	1,991.2
2002	858.3	148.0	700.8	67.0	26.5	18.6	33.9	1,853.2
2003	793.7	131.8	713.0	67.5	22.0	19.9	34.5	1,782.3
2004	809.0	189.4	733.4	69.9	24.8	21.1	32.6	1,880.1

Source: Congressional Budget Office.

Table F-4.

Revenues by Major Source, 1962 to 2004

(Percentage of GDP)

	Individual Income Taxes	Corporate Income Taxes	Social Insurance Taxes	Excise Taxes	Estate and Gift Taxes	Customs Duties	Miscellaneous Receipts	Total Revenues
1962	8.0	3.6	3.0	2.2	0.4	0.2	0.1	17.6
1963	7.9	3.6	3.3	2.2	0.4	0.2	0.2	17.8
1964	7.6	3.7	3.4	2.1	0.4	0.2	0.2	17.6
1965	7.1	3.7	3.2	2.1	0.4	0.2	0.2	17.0
1966	7.3	4.0	3.4	1.7	0.4	0.2	0.2	17.3
1967	7.6	4.2	4.0	1.7	0.4	0.2	0.3	18.4
1968	7.9	3.3	3.9	1.6	0.4	0.2	0.3	17.6
1969	9.2	3.9	4.1	1.6	0.4	0.2	0.3	19.7
1970	8.9	3.2	4.4	1.6	0.4	0.2	0.3	19.0
1971	8.0	2.5	4.4	1.5	0.3	0.2	0.4	17.3
1972	8.0	2.7	4.5	1.3	0.5	0.3	0.3	17.6
1973	7.9	2.8	4.8	1.2	0.4	0.2	0.3	17.6
1974	8.3	2.7	5.2	1.2	0.3	0.2	0.4	18.3
1975	7.8	2.6	5.4	1.1	0.3	0.2	0.4	17.9
1976	7.6	2.4	5.2	1.0	0.3	0.2	0.5	17.1
1977	8.0	2.8	5.4	0.9	0.4	0.3	0.3	18.0
1978	8.2	2.7	5.5	0.8	0.2	0.3	0.3	18.0
1979	8.7	2.6	5.6	0.7	0.2	0.3	0.4	18.5
1980	9.0	2.4	5.8	0.9	0.2	0.3	0.5	19.0
1981	9.3	2.0	6.0	1.3	0.2	0.3	0.5	19.6
1982	9.2	1.5	6.2	1.1	0.2	0.3	0.5	19.2
1983	8.4	1.1	6.1	1.0	0.2	0.3	0.5	17.4
1984	7.8	1.5	6.2	1.0	0.2	0.3	0.4	17.3
1985	8.1	1.5	6.4	0.9	0.2	0.3	0.4	17.7
1986	7.9	1.4	6.4	0.7	0.2	0.3	0.5	17.5
1987	8.4	1.8	6.5	0.7	0.2	0.3	0.4	18.4
1988	8.0	1.9	6.7	0.7	0.2	0.3	0.4	18.1
1989	8.3	1.9	6.7	0.6	0.2	0.3	0.4	18.3
1990	8.1	1.6	6.6	0.6	0.2	0.3	0.5	18.0
1991	7.9	1.7	6.7	0.7	0.2	0.3	0.4	17.8
1992	7.6	1.6	6.6	0.7	0.2	0.3	0.4	17.5
1993	7.7	1.8	6.5	0.7	0.2	0.3	0.3	17.5
1994	7.8	2.0	6.6	0.8	0.2	0.3	0.3	18.1
1995	8.1	2.1	6.6	0.8	0.2	0.3	0.4	18.5
1996	8.5	2.2	6.6	0.7	0.2	0.2	0.3	18.9
1997	9.0	2.2	6.6	0.7	0.2	0.2	0.3	19.3
1998	9.6	2.2	6.6	0.7	0.3	0.2	0.4	20.0
1999	9.6	2.0	6.7	0.8	0.3	0.2	0.4	20.0
2000	10.3	2.1	6.7	0.7	0.3	0.2	0.4	20.9
2001	9.9	1.5	6.9	0.7	0.3	0.2	0.4	19.8
2002	8.3	1.4	6.7	0.6	0.3	0.2	0.3	17.8
2003	7.3	1.2	6.6	0.6	0.2	0.2	0.3	16.4
2004	7.0	1.6	6.3	0.6	0.2	0.2	0.3	16.3

Source: Congressional Budget Office.

Table F-5.

Outlays for Major Spending Categories, 1962 to 2004

(Billions of dollars)

		Mandatory Spending			
	Discretionary Spending	Program Spending[a]	Offsetting Receipts	Net Interest	Total Outlays
1962	72.1	34.7	-6.8	6.9	106.8
1963	75.3	36.2	-7.9	7.7	111.3
1964	79.1	38.9	-7.7	8.2	118.5
1965	77.8	39.7	-7.9	8.6	118.2
1966	90.1	43.4	-8.4	9.4	134.5
1967	106.5	50.9	-10.2	10.3	157.5
1968	118.0	59.7	-10.6	11.1	178.1
1969	117.3	64.6	-11.0	12.7	183.6
1970	120.3	72.5	-11.5	14.4	195.6
1971	122.5	86.9	-14.1	14.8	210.2
1972	128.5	100.8	-14.1	15.5	230.7
1973	130.4	116.0	-18.0	17.3	245.7
1974	138.2	130.9	-21.2	21.4	269.4
1975	158.0	169.4	-18.3	23.2	332.3
1976	175.6	189.1	-19.6	26.7	371.8
1977	197.1	203.7	-21.5	29.9	409.2
1978	218.7	227.4	-22.8	35.5	458.7
1979	240.0	247.0	-25.6	42.6	504.0
1980	276.3	291.2	-29.2	52.5	590.9
1981	307.9	339.4	-37.9	68.8	678.2
1982	326.0	370.8	-36.0	85.0	745.7
1983	353.3	410.6	-45.3	89.8	808.4
1984	379.4	405.6	-44.2	111.1	851.9
1985	415.8	448.2	-47.1	129.5	946.4
1986	438.5	461.8	-45.9	136.0	990.4
1987	444.2	474.2	-52.9	138.6	1,004.1
1988	464.4	505.1	-56.8	151.8	1,064.5
1989	488.8	549.8	-63.8	169.0	1,143.8
1990	500.6	626.8	-58.7	184.3	1,253.1
1991	533.3	702.3	-105.7	194.4	1,324.3
1992	533.8	716.8	-68.4	199.3	1,381.6
1993	539.4	738.0	-66.6	198.7	1,409.5
1994	541.4	786.0	-68.5	202.9	1,461.9
1995	544.9	818.5	-79.7	232.1	1,515.8
1996	532.7	858.7	-71.9	241.1	1,560.5
1997	547.2	896.3	-86.3	244.0	1,601.2
1998	552.1	938.6	-79.2	241.1	1,652.6
1999	572.0	976.8	-76.6	229.8	1,701.9
2000	614.8	1,029.8	-78.6	222.9	1,789.1
2001	649.3	1,094.4	-86.8	206.2	1,863.0
2002	734.3	1,196.7	-91.0	170.9	2,011.0
2003	825.4	1,281.6	-100.2	153.1	2,159.9
2004	895.0	1,345.7	-108.7	160.2	2,292.2

Source: Congressional Budget Office.

a. Excludes offsetting receipts.

Table F-6.

Outlays for Major Spending Categories, 1962 to 2004

(Percentage of GDP)

		Mandatory Spending			
	Discretionary Spending	Program Spending[a]	Offsetting Receipts	Net Interest	Total Outlays
1962	12.7	6.1	-1.2	1.2	18.8
1963	12.6	6.0	-1.3	1.3	18.6
1964	12.3	6.1	-1.2	1.3	18.5
1965	11.3	5.8	-1.1	1.2	17.2
1966	11.9	5.7	-1.1	1.2	17.8
1967	13.1	6.3	-1.3	1.3	19.4
1968	13.6	6.9	-1.2	1.3	20.5
1969	12.4	6.8	-1.2	1.3	19.4
1970	11.9	7.2	-1.1	1.4	19.3
1971	11.3	8.0	-1.3	1.4	19.5
1972	10.9	8.6	-1.2	1.3	19.6
1973	9.9	8.8	-1.4	1.3	18.7
1974	9.6	9.1	-1.5	1.5	18.7
1975	10.1	10.9	-1.2	1.5	21.3
1976	10.1	10.9	-1.1	1.5	21.4
1977	10.0	10.3	-1.1	1.5	20.7
1978	9.9	10.3	-1.0	1.6	20.7
1979	9.6	9.9	-1.0	1.7	20.1
1980	10.1	10.7	-1.1	1.9	21.7
1981	10.1	11.1	-1.2	2.2	22.2
1982	10.1	11.5	-1.1	2.6	23.1
1983	10.3	11.9	-1.3	2.6	23.5
1984	9.9	10.5	-1.2	2.9	22.1
1985	10.0	10.8	-1.1	3.1	22.8
1986	10.0	10.5	-1.0	3.1	22.5
1987	9.5	10.2	-1.1	3.0	21.6
1988	9.3	10.1	-1.1	3.0	21.2
1989	9.0	10.2	-1.2	3.1	21.2
1990	8.7	10.9	-1.0	3.2	21.8
1991	9.0	11.8	-1.8	3.3	22.3
1992	8.6	11.5	-1.1	3.2	22.1
1993	8.2	11.2	-1.0	3.0	21.4
1994	7.8	11.3	-1.0	2.9	21.0
1995	7.4	11.2	-1.1	3.2	20.7
1996	6.9	11.2	-0.9	3.1	20.3
1997	6.7	10.9	-1.1	3.0	19.6
1998	6.4	10.9	-0.9	2.8	19.2
1999	6.3	10.7	-0.8	2.5	18.6
2000	6.3	10.6	-0.8	2.3	18.4
2001	6.5	10.9	-0.9	2.0	18.5
2002	7.1	11.5	-0.9	1.6	19.4
2003	7.6	11.8	-0.9	1.4	19.9
2004	7.7	11.6	-0.9	1.4	19.8

Source: Congressional Budget Office.

a. Excludes offsetting receipts.

Table F-7.

Discretionary Outlays, 1962 to 2004

(Billions of dollars)

	Defense	International	Domestic	Total
1962	52.6	5.5	14.0	72.1
1963	53.7	5.2	16.3	75.3
1964	55.0	4.6	19.5	79.1
1965	51.0	4.7	22.1	77.8
1966	59.0	5.1	26.1	90.1
1967	72.0	5.3	29.1	106.5
1968	82.2	4.9	31.0	118.0
1969	82.7	4.1	30.5	117.3
1970	81.9	4.0	34.4	120.3
1971	79.0	3.8	39.8	122.5
1972	79.3	4.6	44.6	128.5
1973	77.1	4.8	48.5	130.4
1974	80.7	6.2	51.3	138.2
1975	87.6	8.2	62.2	158.0
1976	89.9	7.5	78.2	175.6
1977	97.5	8.0	91.5	197.1
1978	104.6	8.5	105.5	218.7
1979	116.8	9.1	114.1	240.0
1980	134.6	12.8	128.9	276.3
1981	158.0	13.6	136.3	307.9
1982	185.9	12.9	127.1	326.0
1983	209.9	13.6	129.8	353.3
1984	228.0	16.3	135.1	379.4
1985	253.1	17.4	145.3	415.8
1986	273.8	17.7	147.0	438.5
1987	282.5	15.2	146.5	444.2
1988	290.9	15.7	157.8	464.4
1989	304.0	16.6	168.2	488.8
1990	300.1	19.1	181.4	500.6
1991	319.7	19.7	193.9	533.3
1992	302.6	19.2	212.1	533.8
1993	292.4	21.6	225.4	539.4
1994	282.3	20.8	238.3	541.4
1995	273.6	20.1	251.2	544.9
1996	266.0	18.3	248.4	532.7
1997	271.7	19.0	256.6	547.2
1998	270.2	18.1	263.8	552.1
1999	275.5	19.5	277.0	572.0
2000	295.0	21.3	298.6	614.8
2001	306.1	22.5	320.8	649.3
2002	348.9	26.2	359.2	734.3
2003	404.9	27.9	392.6	825.4
2004	454.1	33.8	407.1	895.0

Source: Congressional Budget Office.

Table F-8.

Discretionary Outlays, 1962 to 2004

(Percentage of GDP)

	Defense	International	Domestic	Total
1962	9.3	1.0	2.5	12.7
1963	9.0	0.9	2.7	12.6
1964	8.6	0.7	3.0	12.3
1965	7.4	0.7	3.2	11.3
1966	7.8	0.7	3.5	11.9
1967	8.9	0.7	3.6	13.1
1968	9.5	0.6	3.6	13.6
1969	8.7	0.4	3.2	12.4
1970	8.1	0.4	3.4	11.9
1971	7.3	0.3	3.7	11.3
1972	6.7	0.4	3.8	10.9
1973	5.9	0.4	3.7	9.9
1974	5.6	0.4	3.6	9.6
1975	5.6	0.5	4.0	10.1
1976	5.2	0.4	4.5	10.1
1977	4.9	0.4	4.6	10.0
1978	4.7	0.4	4.8	9.9
1979	4.7	0.4	4.6	9.6
1980	4.9	0.5	4.7	10.1
1981	5.2	0.4	4.5	10.1
1982	5.8	0.4	3.9	10.1
1983	6.1	0.4	3.8	10.3
1984	5.9	0.4	3.5	9.9
1985	6.1	0.4	3.5	10.0
1986	6.2	0.4	3.3	10.0
1987	6.1	0.3	3.1	9.5
1988	5.8	0.3	3.1	9.3
1989	5.6	0.3	3.1	9.0
1990	5.2	0.3	3.2	8.7
1991	5.4	0.3	3.3	9.0
1992	4.8	0.3	3.4	8.6
1993	4.4	0.3	3.4	8.2
1994	4.1	0.3	3.4	7.8
1995	3.7	0.3	3.4	7.4
1996	3.5	0.2	3.2	6.9
1997	3.3	0.2	3.1	6.7
1998	3.1	0.2	3.1	6.4
1999	3.0	0.2	3.0	6.3
2000	3.0	0.2	3.1	6.3
2001	3.0	0.2	3.2	6.5
2002	3.4	0.3	3.5	7.1
2003	3.7	0.3	3.6	7.6
2004	3.9	0.3	3.5	7.7

Source: Congressional Budget Office.

Table F-9.

Outlays for Mandatory Spending, 1962 to 2004

(Billions of dollars)

	Social Security	Medicare	Medicaid	Income Security[a]	Other Retirement and Disability	Other Programs	Offsetting Receipts	Total
1962	14.0	0	0.1	6.1	6.7	7.7	-6.8	27.9
1963	15.5	0	0.2	6.0	7.2	7.3	-7.9	28.3
1964	16.2	0	0.2	6.0	7.5	8.9	-7.7	31.2
1965	17.1	0	0.3	5.4	7.9	9.0	-7.9	31.8
1966	20.3	0	0.8	5.1	8.4	8.8	-8.4	35.0
1967	21.3	3.2	1.2	5.1	9.3	10.9	-10.2	40.7
1968	23.3	5.1	1.8	5.9	10.1	13.4	-10.6	49.1
1969	26.7	6.3	2.3	6.5	11.1	11.8	-11.0	53.6
1970	29.6	6.8	2.7	8.2	12.4	12.8	-11.5	61.0
1971	35.1	7.5	3.4	13.4	14.5	13.0	-14.1	72.8
1972	39.4	8.4	4.6	16.4	16.2	15.8	-14.1	86.7
1973	48.2	9.0	4.6	14.5	18.5	21.3	-18.0	98.0
1974	55.0	10.7	5.8	17.4	20.9	21.1	-21.2	109.7
1975	63.6	14.1	6.8	28.9	26.4	29.6	-18.3	151.1
1976	72.7	16.9	8.6	37.6	27.7	25.6	-19.6	169.5
1977	83.7	20.8	9.9	34.6	31.2	23.6	-21.5	182.2
1978	92.4	24.3	10.7	32.1	33.9	34.0	-22.8	204.6
1979	102.6	28.2	12.4	32.2	38.7	32.9	-25.6	221.4
1980	117.1	34.0	14.0	44.3	44.4	37.5	-29.2	262.1
1981	137.9	41.3	16.8	49.9	50.8	42.6	-37.9	301.6
1982	153.9	49.2	17.4	53.2	55.0	42.1	-36.0	334.8
1983	168.5	55.5	19.0	64.0	58.0	45.5	-45.3	365.2
1984	176.1	61.1	20.1	51.7	59.8	36.8	-44.2	361.3
1985	186.4	69.7	22.7	52.3	61.0	56.3	-47.1	401.1
1986	196.5	74.2	25.0	54.2	63.4	48.4	-45.9	415.9
1987	205.1	79.9	27.4	55.0	66.5	40.2	-52.9	421.3
1988	216.8	85.7	30.5	57.3	71.1	43.7	-56.8	448.2
1989	230.4	93.2	34.6	60.8	74.6	56.2	-63.8	486.0
1990	246.5	107.0	41.1	68.4	76.1	87.7	-58.7	568.2
1991	266.8	114.2	52.5	86.6	82.2	100.0	-105.7	596.5
1992	285.2	129.4	67.8	110.0	84.8	39.6	-68.4	648.4
1993	302.0	143.2	75.8	116.1	87.2	13.7	-66.6	671.4
1994	316.9	159.6	82.0	115.3	93.2	19.0	-68.5	717.5
1995	333.3	177.1	89.1	116.0	95.5	7.6	-79.7	738.8
1996	347.1	191.3	92.0	121.0	96.9	10.5	-71.9	786.8
1997	362.3	207.9	95.6	121.9	102.3	6.4	-86.3	810.0
1998	376.1	211.0	101.2	121.6	105.0	23.6	-79.2	859.4
1999	387.0	209.3	108.0	128.6	105.1	38.8	-76.6	900.1
2000	406.0	216.0	117.9	133.5	113.8	42.6	-78.8	951.0
2001	429.4	237.9	129.4	142.7	116.3	38.8	-86.8	1,007.5
2002	452.1	253.7	147.5	179.9	124.9	38.6	-91.0	1,105.7
2003	470.5	274.2	160.7	196.4	129.4	50.5	-100.2	1,181.4
2004	491.5	297.4	176.2	190.7	135.0	54.8	-108.7	1,237.0

Source: Congressional Budget Office.

a. Includes unemployment compensation, Supplemental Security Income, the refundable portion of the earned income and child tax credits, Food Stamps, family support, child nutrition, and foster care.

Table F-10.

Outlays for Mandatory Spending, 1962 to 2004

(Percentage of GDP)

	Social Security	Medicare	Medicaid	Income Security[a]	Other Retirement and Disability	Other Programs	Offsetting Receipts	Total
1962	2.5	0	*	1.1	1.2	1.4	-1.2	4.9
1963	2.6	0	*	1.0	1.2	1.2	-1.3	4.7
1964	2.5	0	*	0.9	1.2	1.4	-1.2	4.9
1965	2.5	0	*	0.8	1.2	1.3	-1.1	4.6
1966	2.7	0	0.1	0.7	1.1	1.2	-1.1	4.6
1967	2.6	0.4	0.1	0.6	1.1	1.3	-1.3	5.0
1968	2.7	0.6	0.2	0.7	1.2	1.5	-1.2	5.6
1969	2.8	0.7	0.2	0.7	1.2	1.2	-1.2	5.7
1970	2.9	0.7	0.3	0.8	1.2	1.3	-1.1	6.0
1971	3.3	0.7	0.3	1.2	1.3	1.2	-1.3	6.7
1972	3.3	0.7	0.4	1.4	1.4	1.3	-1.2	7.4
1973	3.7	0.7	0.4	1.1	1.4	1.6	-1.4	7.5
1974	3.8	0.7	0.4	1.2	1.4	1.5	-1.5	7.6
1975	4.1	0.9	0.4	1.9	1.7	1.9	-1.2	9.7
1976	4.2	1.0	0.5	2.2	1.6	1.5	-1.1	9.7
1977	4.2	1.1	0.5	1.8	1.6	1.2	-1.1	9.2
1978	4.2	1.1	0.5	1.4	1.5	1.5	-1.0	9.2
1979	4.1	1.1	0.5	1.3	1.5	1.3	-1.0	8.8
1980	4.3	1.2	0.5	1.6	1.6	1.4	-1.1	9.6
1981	4.5	1.4	0.6	1.6	1.7	1.4	-1.2	9.9
1982	4.8	1.5	0.5	1.6	1.7	1.3	-1.1	10.4
1983	4.9	1.6	0.6	1.9	1.7	1.3	-1.3	10.6
1984	4.6	1.6	0.5	1.3	1.6	1.0	-1.2	9.4
1985	4.5	1.7	0.5	1.3	1.5	1.4	-1.1	9.7
1986	4.5	1.7	0.6	1.2	1.4	1.1	-1.0	9.4
1987	4.4	1.7	0.6	1.2	1.4	0.9	-1.1	9.1
1988	4.3	1.7	0.6	1.1	1.4	0.9	-1.1	8.9
1989	4.3	1.7	0.6	1.1	1.4	1.0	-1.2	9.0
1990	4.3	1.9	0.7	1.2	1.3	1.5	-1.0	9.9
1991	4.5	1.9	0.9	1.5	1.4	1.7	-1.8	10.1
1992	4.6	2.1	1.1	1.8	1.4	0.6	-1.1	10.4
1993	4.6	2.2	1.2	1.8	1.3	0.2	-1.0	10.2
1994	4.6	2.3	1.2	1.7	1.3	0.3	-1.0	10.3
1995	4.5	2.4	1.2	1.6	1.3	0.1	-1.1	10.1
1996	4.5	2.5	1.2	1.6	1.3	0.1	-0.9	10.2
1997	4.4	2.5	1.2	1.5	1.2	0.1	-1.1	9.9
1998	4.4	2.4	1.2	1.4	1.2	0.3	-0.9	10.0
1999	4.2	2.3	1.2	1.4	1.2	0.4	-0.8	9.9
2000	4.2	2.2	1.2	1.4	1.2	0.4	-0.8	9.8
2001	4.3	2.4	1.3	1.4	1.2	0.4	-0.9	10.0
2002	4.4	2.4	1.4	1.7	1.2	0.4	-0.9	10.6
2003	4.3	2.5	1.5	1.8	1.2	0.5	-0.9	10.9
2004	4.3	2.6	1.5	1.7	1.2	0.5	-0.9	10.7

Source: Congressional Budget Office.

Note: * = between zero and 0.05 percent.

a. Includes unemployment compensation, Supplemental Security Income, the refundable portion of the earned income and child tax credits, Food Stamps, family support, child nutrition, and foster care.

Table F-11.

Deficits, Surpluses, Debt, and Related Series, 1962 to 2004

	Billions of Dollars			Percentage of Potential GDP				
	Deficit (-) or Surplus	Standardized-Budget Deficit (-) or Surplus[a]	Debt Held by the Public	Deficit (-) or Surplus	Standardized-Budget Deficit (-) or Surplus[a]	Debt Held by the Public	GDP (Billions of dollars) Actual[b]	GDP (Billions of dollars) Potential
1962	-7	-4	248	-1.2	-0.7	43.1	568	575
1963	-5	-4	254	-0.8	-0.6	42.0	599	604
1964	-6	-6	257	-0.9	-1.0	40.3	641	637
1965	-1	-5	261	-0.2	-0.7	38.6	687	675
1966	-4	-14	264	-0.5	-2.0	36.6	756	720
1967	-9	-22	267	-1.1	-2.8	34.3	810	777
1968	-25	-31	290	-3.0	-3.7	34.4	869	841
1969	3	-3	278	0.4	-0.3	30.3	948	917
1970	-3	2	283	-0.3	0.2	28.2	1,013	1,003
1971	-23	-10	303	-2.1	-0.9	27.8	1,080	1,091
1972	-23	-21	322	-2.0	-1.7	27.3	1,177	1,180
1973	-15	-20	341	-1.2	-1.6	26.8	1,311	1,274
1974	-6	2	344	-0.4	0.1	24.3	1,439	1,415
1975	-53	3	395	-3.3	0.2	24.4	1,561	1,616
1976	-74	-36	477	-4.1	-2.0	26.7	1,739	1,790
1977	-54	-21	549	-2.7	-1.1	27.4	1,974	2,003
1978	-59	-33	607	-2.7	-1.5	27.4	2,218	2,213
1979	-41	-18	640	-1.6	-0.7	25.9	2,502	2,472
1980	-74	-11	712	-2.7	-0.4	25.7	2,725	2,773
1981	-79	-12	789	-2.5	-0.4	25.2	3,059	3,131
1982	-128	-38	925	-3.7	-1.1	26.9	3,226	3,436
1983	-208	-109	1,137	-5.6	-3.0	30.9	3,443	3,686
1984	-185	-141	1,307	-4.7	-3.6	33.2	3,847	3,934
1985	-212	-180	1,507	-5.1	-4.3	36.0	4,149	4,188
1986	-221	-213	1,741	-5.0	-4.8	39.3	4,407	4,426
1987	-150	-159	1,890	-3.2	-3.4	40.3	4,654	4,688
1988	-155	-128	2,052	-3.1	-2.6	41.1	5,012	4,991
1989	-153	-120	2,191	-2.9	-2.2	41.0	5,402	5,341
1990	-221	-123	2,412	-3.9	-2.2	42.3	5,737	5,704
1991	-269	-153	2,689	-4.4	-2.5	44.2	5,934	6,081
1992	-290	-188	3,000	-4.5	-2.9	46.9	6,241	6,398
1993	-255	-192	3,248	-3.8	-2.9	48.4	6,578	6,711
1994	-203	-145	3,433	-2.9	-2.1	48.8	6,964	7,038
1995	-164	-145	3,604	-2.2	-2.0	48.8	7,325	7,390
1996	-107	-92	3,734	-1.4	-1.2	48.1	7,697	7,760
1997	-22	-78	3,772	-0.3	-1.0	46.3	8,187	8,152
1998	69	-34	3,721	0.8	-0.4	43.6	8,626	8,535
1999	126	8	3,632	1.4	0.1	40.5	9,127	8,965
2000	236	116	3,410	2.5	1.2	35.9	9,708	9,492
2001	128	115	3,320	1.3	1.1	32.9	10,060	10,077
2002	-158	-117	3,540	-1.5	-1.1	33.3	10,389	10,635
2003	-378	-303	3,913	-3.4	-2.7	35.0	10,841	11,182
2004	-412	-280	4,296	-3.5	-2.4	36.5	11,553	11,758

Sources: Congressional Budget Office; Department of Commerce, Bureau of Economic Analysis.

a. Excludes deposit insurance, receipts from auctions of licenses to use the electromagnetic spectrum, timing adjustments, and contributions from allied nations for Operation Desert Storm (which were received in 1991 and 1992).

b. CBO calculated fiscal year numbers from seasonally adjusted quarterly national income and product account data from the Bureau of Economic Analysis.

Table F-12.

Standardized-Budget Deficit or Surplus and Related Series, 1962 to 2004

(Billions of dollars)

	Budget Deficit (-) or Surplus	– Cyclical Contribution	+ Other Adjustments[a]	= Standardized-Budget Deficit (-) or Surplus	Revenues	Outlays
1962	-7	-2	1	-4	99	104
1963	-5	-2	*	-4	106	110
1964	-6	2	1	-6	109	115
1965	-1	5	1	-5	110	115
1966	-4	13	2	-14	115	130
1967	-9	12	-1	-22	131	153
1968	-25	11	5	-31	140	171
1969	3	14	8	-3	171	173
1970	-3	5	10	2	186	184
1971	-23	-4	9	-10	187	197
1972	-23	*	2	-21	199	220
1973	-15	14	8	-20	214	234
1974	-6	10	18	2	251	249
1975	-53	-22	35	3	300	297
1976	-74	-24	14	-36	309	345
1977	-54	-13	20	-21	357	379
1978	-59	3	29	-33	389	422
1979	-41	12	35	-18	442	460
1980	-74	-20	43	-11	521	532
1981	-79	-29	38	-12	611	623
1982	-128	-67	23	-38	661	699
1983	-208	-91	7	-109	657	766
1984	-185	-32	12	-141	675	816
1985	-212	-15	17	-180	723	902
1986	-221	-9	-1	-213	745	958
1987	-150	-11	-20	-159	813	972
1988	-155	9	37	-128	867	995
1989	-153	22	55	-120	936	1,055
1990	-221	12	109	-123	990	1,113
1991	-269	-46	70	-153	1,067	1,220
1992	-290	-61	41	-188	1,125	1,313
1993	-255	-51	11	-192	1,167	1,359
1994	-203	-29	30	-145	1,247	1,391
1995	-164	-19	*	-145	1,332	1,477
1996	-107	-21	-6	-92	1,419	1,511
1997	-22	12	-44	-78	1,498	1,576
1998	69	36	-67	-34	1,601	1,634
1999	126	60	-57	8	1,670	1,662
2000	236	83	-38	116	1,833	1,717
2001	128	6	-7	115	1,913	1,798
2002	-158	-79	-38	-117	1,839	1,956
2003	-378	-103	-29	-303	1,793	2,096
2004	-412	-60	72	-280	1,932	2,212

Source: Congressional Budget Office.

Note: * = between -$500 million and zero.

a. Consists of deposit insurance, receipts from auctions of licenses to use the electromagnetic spectrum, timing adjustments, and contributions from allied nations for Operation Desert Storm (which were received in 1991 and 1992).

Table F-13.

Standardized-Budget Deficit or Surplus and Related Series, 1962 to 2004

(Percentage of potential GDP)

	Budget Deficit (-) or Surplus	– Cyclical Contribution	+ Other Adjustments[a]	= Standardized-Budget Deficit (-) or Surplus	Revenues	Outlays
1962	-1.2	-0.4	0.1	-0.7	17.3	18.0
1963	-0.8	-0.3	-0.1	-0.6	17.5	18.2
1964	-0.9	0.3	0.2	-1.0	17.1	18.0
1965	-0.2	0.7	0.2	-0.7	16.3	17.0
1966	-0.5	1.8	0.3	-2.0	16.0	18.0
1967	-1.1	1.6	-0.2	-2.8	16.9	19.7
1968	-3.0	1.3	0.6	-3.7	16.6	20.3
1969	0.4	1.5	0.9	-0.3	18.6	18.9
1970	-0.3	0.5	1.0	0.2	18.5	18.4
1971	-2.1	-0.3	0.9	-0.9	17.1	18.1
1972	-2.0	*	0.2	-1.7	16.9	18.6
1973	-1.2	1.1	0.6	-1.6	16.8	18.4
1974	-0.4	0.7	1.3	0.1	17.7	17.6
1975	-3.3	-1.3	2.1	0.2	18.6	18.4
1976	-4.1	-1.3	0.8	-2.0	17.2	19.3
1977	-2.7	-0.6	1.0	-1.1	17.8	18.9
1978	-2.7	0.1	1.3	-1.5	17.6	19.1
1979	-1.6	0.5	1.4	-0.7	17.9	18.6
1980	-2.7	-0.7	1.6	-0.4	18.8	19.2
1981	-2.5	-0.9	1.2	-0.4	19.5	19.9
1982	-3.7	-2.0	0.7	-1.1	19.2	20.3
1983	-5.6	-2.5	0.2	-3.0	17.8	20.8
1984	-4.7	-0.8	0.3	-3.6	17.2	20.7
1985	-5.1	-0.4	0.4	-4.3	17.3	21.5
1986	-5.0	-0.2	*	-4.8	16.8	21.7
1987	-3.2	-0.2	-0.4	-3.4	17.3	20.7
1988	-3.1	0.2	0.7	-2.6	17.4	19.9
1989	-2.9	0.4	1.0	-2.2	17.5	19.8
1990	-3.9	0.2	1.9	-2.2	17.3	19.5
1991	-4.4	-0.8	1.1	-2.5	17.5	20.1
1992	-4.5	-1.0	0.6	-2.9	17.6	20.5
1993	-3.8	-0.8	0.2	-2.9	17.4	20.3
1994	-2.9	-0.4	0.4	-2.1	17.7	19.8
1995	-2.2	-0.3	*	-2.0	18.0	20.0
1996	-1.4	-0.3	-0.1	-1.2	18.3	19.5
1997	-0.3	0.1	-0.5	-1.0	18.4	19.3
1998	0.8	0.4	-0.8	-0.4	18.8	19.1
1999	1.4	0.7	-0.6	0.1	18.6	18.5
2000	2.5	0.9	-0.4	1.2	19.3	18.1
2001	1.3	0.1	-0.1	1.1	19.0	17.8
2002	-1.5	-0.7	-0.4	-1.1	17.3	18.4
2003	-3.4	-0.9	-0.3	-2.7	16.0	18.7
2004	-3.5	-0.5	0.6	-2.4	16.4	18.8

Source: Congressional Budget Office.

Note: * = between -0.05 percent and zero.

a. Consists of deposit insurance, receipts from auctions of licenses to use the electromagnetic spectrum, timing adjustments, and contributions from allied nations for Operation Desert Storm (which were received in 1991 and 1992).

APPENDIX

G

Contributors to the Revenue and Spending Projections

The following Congressional Budget Office analysts prepared the revenue and spending projections in this report:

Revenue Projections

Annabelle Bartsch	Customs duties, miscellaneous receipts
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Barbara Edwards	Social insurance taxes, Federal Reserve System earnings
Pamela Greene	Corporate income taxes, estate and gift taxes
Laura Hanlon	Excise taxes
Ed Harris	Corporate income taxes
Rob McClelland	Estate and gift taxes
Larry Ozanne	Capital gains realizations
Monisha Primlani	Individual income taxes
Kurt Seibert	Earned income tax credit
David Weiner	Individual income taxes

Spending Projections

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Jo Ann Vines	Unit Chief
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Raymond Hall	Defense (Navy weapons, missile defenses, stockpile sales, atomic energy defense)
Sarah Jennings	Military retirement, veterans' education
Fran Lussier	Military activities in Iraq and Afghanistan and for the war on terrorism

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Geoffrey Gerhardt	Federal civilian retirement, Pension Benefit Guaranty Corporation, Supplemental Security Income, Railroad Retirement
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Deborah Kalcevic	Education
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Mark Grabowicz	Justice, Postal Service
Kathleen Gramp	Spectrum-auction receipts, energy, deposit insurance
Greg Hitz	Agriculture
David Hull	Agriculture
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Other

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Mary Froehlich	Computer support
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Ellen Hays	Federal pay, report coordinator
Catherine Little	Appropriation bills (VA-HUD, Transportation-Treasury)
Virginia Myers	Appropriation bills (Commerce-Justice-State, foreign operations)
Eric Schatten	Interest on the public debt, report coordinator
Robert Sempsey	Appropriation bills (Labor-HHS, Homeland Security, military construction)
Gerard Trimarco	Other interest, report coordinator
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Glossary

This glossary defines economic and budgetary terms as they apply to the Congressional Budget Office's annual *Budget and Economic Outlook* and also acts as a general reference for readers. Some entries sacrifice technical precision for the sake of brevity and clarity. Where appropriate, entries note the sources of data for economic variables as follows:

(BEA) refers to the Bureau of Economic Analysis in the Department of Commerce;

(BLS) refers to the Bureau of Labor Statistics in the Department of Labor;

(CBO) refers to the Congressional Budget Office;

(FRB) refers to the Federal Reserve Board; and

(NBER) refers to the National Bureau of Economic Research (a private entity).

accrual accounting: A system of accounting in which revenues are recorded when earned and outlays are recorded when goods are received or services performed, even though the actual receipt of revenues and payment for goods or services may occur, in whole or in part, at a different time. Compare with **cash accounting.**

adjusted gross income (AGI): All income subject to taxation under the individual income tax after subtracting "above-the-line" deductions (such as alimony payments and certain contributions to individual retirement accounts). Personal exemptions and the standard or itemized deductions are subtracted from AGI to determine taxable income.

advance appropriation: Budget authority provided in an appropriation act that is first available for obligation in a fiscal year after the year for which the appropriation was enacted. The amount of the advance appropriation is included in the budget totals for the fiscal year in which it will become available. See **appropriation act, budget authority, fiscal year,** and **obligation;** compare with **forward funding, obligation delay,** and **unobligated balances.**

aggregate demand: Total purchases of a country's output of goods and services by consumers, businesses, government, and foreigners during a given period. (BEA) Compare with **domestic demand.**

AGI: See **adjusted gross income.**

alternative minimum tax (AMT): A tax intended to limit the extent to which higher-income taxpayers can reduce their tax liability (the amount they owe) through the use of preferences in the tax code. Taxpayers subject to the AMT are required to recalculate their tax liability on the basis of a more limited set of exemptions, deductions, and tax credits than would normally apply. The amount by which a taxpayer's AMT calculation exceeds his or her regular tax calculation is that taxpayer's AMT liability.

appropriation act: Legislation under the jurisdiction of the House and Senate Committees on Appropriations that provides budget authority for federal programs or agencies. By law, such an act has a particular style and title—for example, "An act making appropriations for the Department of Defense for the year ending September 30, 2005." Generally, 13 regular appropriation acts are considered annually to fund the operations of the federal government; the Congress may also consider supplemental or continuing appropriation acts, but each follows the statutory style and title. See **budget authority.**

authorization act: Legislation under the jurisdiction of a committee *other than* the House and Senate Committees on Appropriations that establishes or continues the operation of a federal program or agency, either indefinitely or for a specified period of time. An authorization act may suggest a level of budget authority needed to fund the

program or agency, which is then provided in a future appropriation act. However, for some programs, the authorization itself may provide the budget authority. See **budget authority.**

Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177): Referred to in CBO's reports as the Deficit Control Act, it was originally known as Gramm-Rudman-Hollings. Among other changes to the budget process, the law established specific deficit targets and a sequestration procedure to reduce spending if those targets were exceeded. The Deficit Control Act has been amended and extended several times—most significantly by the Budget Enforcement Act of 1990. That law established one type of control, the pay-as-you-go procedure, for legislation affecting direct spending and revenues and another type of control, annual spending limits, for discretionary spending. The sequestration procedure—originally applicable to overall deficit targets—was restructured to enforce the pay-as-you-go process and the discretionary spending limits separately. However, on September 30, 2002, the discretionary spending limits and the sequestration procedure to enforce those caps expired, and the Office of Management and Budget (OMB) and CBO were no longer required to record the five-year budgetary effects of legislation affecting direct spending or revenues. Although sequestration under the pay-as-you-go procedure would have continued through 2006 on the basis of laws enacted before September 30, 2002, Public Law 107-312 eliminated that possibility by reducing to zero all pay-as-you-go balances. See **direct spending, discretionary spending, discretionary spending limits, pay-as-you-go, revenues,** and **sequestration.**

baseline: A benchmark for measuring the budgetary effects of proposed changes in federal revenues or spending. For purposes of the Deficit Control Act, the baseline is the projection of current-year levels of new budget authority, outlays, revenues, and the deficit or surplus into the budget year and out-years based on current laws and policies, calculated following the rules set forth in section 257 of that act. See **fiscal year.**

basis point: One-hundredth of a percentage point. (For example, the difference between interest rates of 5.5 percent and 5.0 percent is 50 basis points.)

***Blue Chip* consensus forecast:** The average of approximately 50 private-sector economic forecasts compiled and published monthly by Aspen Publishers, Inc.

book depreciation: See **depreciation.**

book profits: Profits calculated using book (or tax) depreciation and standard accounting conventions for inventories. Different from economic profits, book profits are referred to as "profits before tax" in the national income and product accounts. See **depreciation, economic profits,** and **national income and product accounts.**

budget authority: Authority provided by law to incur financial obligations that will result in immediate or future outlays of federal government funds. Budget authority may be provided in an appropriation act or authorization act and may take the form of borrowing authority, contract authority, entitlement authority, or authority to obligate and expend offsetting collections or receipts. Offsetting collections and receipts are classified as negative budget authority. See **appropriation act, authorization act, contract authority, offsetting collections, offsetting receipts,** and **outlays.**

Budget Enforcement Act of 1990: See **Balanced Budget and Emergency Deficit Control Act of 1985.**

budget function: One of 20 general subject categories into which budgetary resources are grouped so that all budget authority and outlays can be presented according to the national interests being addressed. There are 17 broad budget functions, including national defense, international affairs, energy, agriculture, health, income security, and general government. Three other functions—net interest, allowances, and undistributed offsetting receipts—are included to complete the budget. See **budget authority, net interest, offsetting receipts,** and **outlays.**

budget resolution: A concurrent resolution, adopted by both Houses of Congress, that sets forth a Congressional budget plan for the budget year and at least four out-years. The plan consists of spending and revenue targets with which subsequent appropriation acts and authorization acts that affect revenues and direct spending are expected to comply. The targets established in the budget resolution are enforced in each House of Congress through procedural mechanisms set forth in law and in

the rules of each House. See **appropriation act, authorization act, direct spending, fiscal year,** and **revenues.**

budget year: See **fiscal year.**

budgetary resources: All sources of authority provided to federal agencies that permit them to incur financial obligations, including new budget authority, unobligated balances, direct spending authority, and obligation limitations. See **budget authority, direct spending, obligation limitation,** and **unobligated balances.**

business cycle: Fluctuations in overall business activity accompanied by swings in the unemployment rate, interest rates, and corporate profits. Over a business cycle, real activity rises to a peak (its highest level during the cycle) then falls until it reaches a trough (its lowest level following the peak), whereupon it starts to rise again, defining a new cycle. Business cycles are irregular, varying in frequency, magnitude, and duration. (NBER) See **real.**

business fixed investment: Spending by businesses on structures, equipment, and software. Such investment is labeled "fixed" to distinguish it from investment in inventories.

capacity utilization rate: The seasonally adjusted output of the nation's factories, mines, and electric and gas utilities expressed as a percentage of their capacity to produce output. The capacity of a facility is the greatest output it can maintain with a normal work pattern. (FRB)

capital: *Physical capital* is land and the stock of products set aside to support future production and consumption. In the national income and product accounts, *private capital* consists of business inventories, producers' durable equipment, and residential and nonresidential structures. *Financial capital* is monetary resources raised by governments, individuals, or businesses by issuing securities such as bonds, mortgages, or stock certificates. *Human capital* is the education, training, work experience, and other attributes that enhance the ability of the labor force to produce goods and services. *Bank capital* is the sum advanced and put at risk by the owners of a bank; it represents the first "cushion" in the event of loss, thereby decreasing the willingness of the owners to take risks in lending. See **consumption** and **national income and product accounts.**

capital input: A measure of the flow of services available for production from the stock of capital goods. Growth in the capital input differs from growth in the capital stock because different types of capital goods (such as equipment, structures, inventories, or land) contribute to production in different ways.

cash accounting: A system of accounting in which revenues are recorded when actually received and outlays are recorded when payment is made. Compare with **accrual accounting.**

central bank: A government-established agency responsible for conducting monetary policy and overseeing credit conditions. The Federal Reserve System fulfills those functions in the United States. See **Federal Reserve System** and **monetary policy.**

compensation: All income due to employees for their work during a given period. In addition to wages, salaries, bonuses, and stock options, compensation includes fringe benefits and the employer's share of contributions to social insurance programs, such as Social Security. (BEA)

consumer confidence: An index of consumer optimism based on surveys of consumers' attitudes about current and future economic conditions. One such index—the Index of Consumer Sentiment—is constructed by the University of Michigan's Survey Research Center. The Conference Board constructs a similar index—the Consumer Confidence Index.

consumer price index (CPI): An index of the cost of living commonly used to measure inflation. The Bureau of Labor Statistics publishes the CPI-U, an index of consumer prices based on the typical market basket of goods and services consumed by all urban consumers during a base period, and the CPI-W, an index of consumer prices based on the typical market basket of goods and services consumed by urban wage earners and clerical workers during a base period. (BLS) See **inflation.**

consumer sentiment index: See **consumer confidence.**

consumption: In principle, the value of goods and services purchased and used up during a given period by households and governments. In practice, the Bureau of Economic Analysis counts purchases of many long-

lasting goods (such as cars and clothes) as consumption even though the goods are not used up. Consumption by households alone is also called "consumer spending." See **national income and product accounts.**

contract authority: Authority in law to enter into contracts or incur other obligations in advance of, or in excess of, funds available for that purpose. Although it is a form of budget authority, contract authority does not provide the funds to make payments. Those funds must be provided later, usually in a subsequent appropriation act (called a "liquidating appropriation"). Contract authority differs from a federal agency's inherent authority to enter into contracts, which may be exercised only within the limits of available appropriations. See **appropriation act, budget authority,** and **obligation.**

CPI: See **consumer price index.**

credit reform: A system of budgeting for federal credit activities that focuses on the cost of subsidies conveyed in federal credit assistance. The system was established by the Federal Credit Reform Act of 1990. See **credit subsidy.**

credit subsidy: The estimated long-term cost to the federal government of a direct loan or loan guarantee. That cost is calculated on the basis of net present value, excluding federal administrative costs and any incidental effects on revenues or outlays. For direct loans, the subsidy cost is the net present value of loan disbursements minus repayments of interest and principal, adjusted for estimated defaults, prepayments, fees, penalties, and other recoveries. For loan guarantees, the subsidy cost is the net present value of estimated payments by the government to cover defaults and delinquencies, interest subsidies, or other payments, offset by any payments to the government, including origination and other fees, penalties, and recoveries. See **outlays, present value,** and **revenues.**

current-account balance: The net revenues that arise from a country's international sales and purchases of goods and services, plus net international transfers (public or private gifts or donations) and net factor income (primarily capital income from foreign property owned by residents of that country minus capital income from domestic property owned by nonresidents). The current-account balance differs from net exports in that it includes international transfers and net factor income. (BEA) See **net exports.**

current dollar: A measure of spending or revenues in a given year that has not been adjusted for differences in prices (such as inflation) between that year and a base year. See **nominal;** compare with **real.**

current year: See **fiscal year.**

cyclical deficit or surplus: The portion of the federal budget deficit or surplus that results from cyclical factors rather than from underlying fiscal policy. This cyclical component reflects the way in which the deficit or surplus automatically increases or decreases during economic booms or recessions. (CBO) See **deficit, fiscal policy,** and **surplus;** compare with **standardized-budget deficit or surplus.**

debt: The total value of outstanding securities issued by the federal government is referred to as *federal debt* or *gross debt*. It has two components: *debt held by the public* (federal debt held by nonfederal investors, including the Federal Reserve System) and *debt held by government accounts* (federal debt held by federal government trust funds, deposit insurance funds, and other federal accounts). *Debt subject to limit* is federal debt that is subject to a statutory limit on its issuance. The current limit applies to almost all gross debt, except a small portion of the debt issued by the Department of the Treasury and the small amount of debt issued by other federal agencies (primarily the Tennessee Valley Authority and the Postal Service). *Unavailable debt* is debt that is not available for redemption, or the amount of debt that would remain outstanding even if surpluses were large enough to redeem it. Such debt includes securities that have not yet matured (and will be unavailable for repurchase) and nonmarketable securities, such as savings bonds.

debt service: Payment of scheduled interest obligations on outstanding debt. As used in CBO's *Budget and Economic Outlook*, debt service refers to a change in interest payments resulting from a change in estimates of the deficit or surplus.

deficit: The amount by which the federal government's total outlays exceed its total revenues in a given period,

typically a fiscal year. See **outlays** and **revenues;** compare with **surplus.**

Deficit Control Act: See **Balanced Budget and Emergency Deficit Control Act of 1985.**

deflation: A drop in general price levels so broadly based that general indexes of prices, such as the consumer price index, register continuing declines. Deflation is usually caused by a collapse in aggregate demand. See **aggregate demand** and **consumer price index.**

deposit insurance: The guarantee by a federal agency that an individual depositor at a participating depository institution will receive the full amount of the deposit (up to $100,000) if the institution becomes insolvent.

depreciation: A decline in the value of a currency, financial asset, or capital good. When applied to a capital good, depreciation usually refers to loss of value because of obsolescence, wear, or destruction (as by fire or flood). *Book depreciation* (also known as tax depreciation) is the depreciation that the tax code allows businesses to deduct when they calculate their taxable profits. It is typically faster than *economic depreciation*, which represents the actual decline in the value of the asset. Both measures of depreciation appear as part of the national income and product accounts. See **book profits** and **national income and product accounts.**

devaluation: The act of a government to lower the fixed exchange rate of its currency. The government implements a devaluation by announcing that it will no longer maintain the existing rate by buying and selling its currency at that rate. See **exchange rate.**

direct spending: Synonymous with mandatory spending, direct spending is budget authority provided and controlled by laws other than appropriation acts and the outlays that result from that budget authority. For the purposes of the Deficit Control Act, direct spending includes entitlement authority and the Food Stamp program. In this report, direct spending refers to the outlays that result from budget authority provided in laws other than appropriation acts. See **appropriation act, budget authority, entitlement,** and **outlays;** compare with **discretionary spending.**

discount rate: The interest rate that the Federal Reserve System charges on a loan it makes to a bank. Such loans, when allowed, enable a bank to meet its reserve requirements without reducing its loans.

discouraged workers: Jobless people who are available for work but who are not actively seeking it because they think they have poor prospects of finding a job. Discouraged workers are not counted as part of the labor force or as being unemployed. (BLS) See **labor force** and **unemployment rate.**

discretionary spending: Budget authority that is provided and controlled by appropriation acts and the outlays that result from that budget authority. In this report, discretionary spending refers to the outlays that result from budget authority provided in appropriation acts. See **appropriation act** and **outlays;** compare with **direct spending.**

discretionary spending limits (or caps): Statutory ceilings imposed on the amount of budget authority provided in appropriation acts in a fiscal year and on the outlays that are made in that fiscal year. The limits were first established in the Budget Enforcement Act of 1990 and enforced through sequestration. On September 30, 2002, all discretionary spending limits, and the sequestration process to enforce them, expired. See **Balanced Budget and Emergency Deficit Control Act of 1985, budget authority, discretionary spending, outlays,** and **sequestration.**

disposable personal income: Personal income—the income that individuals receive, including transfer payments—minus the personal taxes and fees that they pay to governments. (BEA) See **transfer payments.**

domestic demand: Total purchases of goods and services, regardless of origin, by U.S. consumers, businesses, and governments during a given period. Domestic demand equals gross domestic product minus net exports. (BEA) See **gross domestic product** and **net exports;** compare with **aggregate demand.**

ECI: See **employment cost index.**

Economic and Monetary Union (EMU): A currency union consisting of most of the members of the European

Union, who in January 1999 aligned their monetary policies under the European Central Bank and adopted a common currency, the euro.

Economic Growth and Tax Relief Reconciliation Act of 2001 (Public Law 107-16): Referred to in CBO reports as EGTRRA, it was signed into law on June 7, 2001. The law significantly reduces tax liabilities (the amount of tax owed) over the 2001-2010 period by cutting individual income tax rates, increasing the child tax credit, repealing estate taxes, raising deductions for married couples, increasing tax benefits for pensions and individual retirement accounts, and creating additional tax benefits for education. The law phases in many of those changes over time, including some that are not fully effective until 2010. Although one provision has been made permanent, the remainder of the law's provisions are scheduled to expire on or before December 31, 2010. See **Jobs and Growth Tax Relief Reconciliation Act of 2003** and **Job Creation and Worker Assistance Act of 2002.**

economic profits: Profits of corporations, adjusted to remove distortions in depreciation allowances caused by tax rules and to exclude the effect of inflation on the value of inventories. Economic profits are a better measure of profits from current production than are book profits reported by corporations. Economic profits are referred to as "corporate profits with inventory valuation and capital consumption adjustments" in the national income and product accounts. (BEA) See **book profits, depreciation,** and **national income and product accounts.**

effective tax rate: The ratio of taxes paid to a given tax base. For individual income taxes, the effective tax rate is typically expressed as the ratio of taxes to adjusted gross income. For corporate income taxes, it is the ratio of taxes to book profits. For some purposes—such as calculating an overall tax rate on all income sources—an effective tax rate is computed on a base that includes the untaxed portion of Social Security benefits, interest on tax-exempt bonds, and similar items. It can also be computed on a base of personal income as measured by the national income and product accounts. The effective tax rate is a useful measure because the tax code's various exemptions, credits, deductions, and tax rates make actual ratios of taxes to income very different from statutory tax rates. See **adjusted gross income** and **book profits.**

EGTRRA: See **Economic Growth and Tax Relief Reconciliation Act of 2001**.

employment: Work performed or services rendered in exchange for compensation. There are two commonly used estimates of employment: the establishment survey, based on a survey of employers (the Current Employment Statistics Survey); and the household survey, based on a survey of households (the Current Population Survey). In the establishment survey, employment is an estimate of the number of nonfarm wage and salary jobs (so a person with more than one job may be counted more than once). The establishment survey does not include the unincorporated self-employed, unpaid family workers, agriculture and related workers (except in the area of logging), private household workers, and workers who are temporarily absent from their jobs (for instance, those on leave without pay or on strike). In the household survey, employment is an estimate of the number of employed people (so a person with more than one job will be counted only once). The household survey is based on a smaller sample than the establishment survey and, therefore, yields a more volatile estimate of employment.

employment cost index (ECI): An index of the weighted-average cost of an hour of labor—comprising the cost to the employer of wage and salary payments, employee benefits, and contributions for social insurance programs. The ECI is structured so that it is not affected by changes in the mix of occupations or by changes in employment by industry. (BLS)

entitlement: A legal obligation of the federal government to make payments to a person, group of people, business, unit of government, or similar entity that is not controlled by the level of budget authority provided in an appropriation act. The Congress generally controls spending for entitlement programs by setting eligibility criteria and benefit or payment rules. The source of funding to liquidate the obligation may be provided in either the authorization act that created the entitlement or a subsequent appropriation act. The best-known entitlements are the major benefit programs, such as Social Security and Medicare. See **appropriation act, authorization act, budget authority,** and **direct spending.**

exchange rate: The number of units of a foreign currency that can be bought with one unit of the domestic currency, or vice versa.

excise tax: A tax levied on the purchase of a specific type of good or service, such as tobacco products or telephone services.

expansion: A phase of the business cycle extending from the date that gross domestic product exceeds its previous peak to the next peak. (NBER) See **business cycle, gross domestic product,** and **recovery;** compare with **recession.**

expenditure account: An account established within federal funds and trust funds to record appropriations, obligations, and outlays (and offsetting collections) that are usually financed from an associated receipt account. See **federal funds** and **trust funds;** compare with **receipt account.**

fan chart: A graphic representation of CBO's baseline projections that includes not only a single line representing the outcome expected under the baseline's economic assumptions but also the various possible outcomes surrounding that line based on the reasonable expectations of error in the underlying assumptions.

federal funds: In the federal accounting structure, federal funds are all accounts through which collections of money and expenditures are recorded, except those classified by law as trust funds. Federal funds include several types of funds, one of which is the general fund. See **general fund;** compare with **trust funds.**

federal funds rate: The interest rate that financial institutions charge each other for overnight loans of their monetary reserves. A rise in the federal funds rate (compared with other short-term interest rates) suggests a tightening of monetary policy, whereas a fall suggests an easing. (FRB) See **monetary policy** and **short-term interest rate.**

Federal Open Market Committee: The group within the Federal Reserve System that determines the stance of monetary policy. The open market desk at the Federal Reserve Bank of New York implements that policy with open market operations (the purchase or sale of government securities), which influence short-term interest rates—especially the federal funds rate—and the growth of the money supply. The committee is composed of 12 members, including the seven members of the Board of Governors of the Federal Reserve System, the president of the Federal Reserve Bank of New York, and a rotating group of four of the other 11 presidents of the regional Federal Reserve Banks. See **federal funds rate, Federal Reserve System, monetary policy,** and **short-term interest rate.**

Federal Reserve System: The central bank of the United States. The Federal Reserve is responsible for conducting the nation's monetary policy and overseeing credit conditions. See **central bank, monetary policy,** and **short-term interest rate.**

financing account: A nonbudgetary account associated with a credit program that holds balances, receives credit subsidy payments from the program account, and includes all cash flows resulting from obligations or commitments made under the program since October 1, 1991. The transactions reflected in the financing account are considered a means of financing. See **credit subsidy, means of financing,** and **program account;** compare with **liquidating account.**

fiscal policy: The government's tax and spending programs, which influence the amount and maturity of government debt as well as the level, composition, and distribution of national output and income. Many summary indicators of fiscal policy exist. Some, such as the budget deficit or surplus, are narrowly budgetary. Others attempt to reflect aspects of how fiscal policy affects the economy. For example, a decrease in the *standardized-budget surplus* (or increase in the *standardized-budget deficit*) measures the short-term effect on demand that results from higher spending or lower taxes. The *fiscal gap* measures whether current fiscal policy implies a budget that is close enough to balance to be sustainable over the long term. The fiscal gap represents the amount by which taxes would have to be raised, or spending cut, to keep the ratio of debt to GDP from rising forever. Other important measures of fiscal policy include the ratios of total taxes and total spending to GDP. See **debt, deficit, gross domestic product, national income, standardized-budget deficit or surplus,** and **surplus.**

fiscal year: A yearly accounting period. The federal government's fiscal year begins October 1 and ends September 30. Fiscal years are designated by the calendar years in which they end—for example, fiscal year 2006 will begin on October 1, 2005, and end on September 30, 2006.

The *budget year* is the fiscal year for which the budget is being considered; in relation to a session of Congress, it is the fiscal year that starts on October 1 of the calendar year in which that session of Congress begins. An *out-year* is a fiscal year following the budget year. The *current year* is the fiscal year in progress.

foreign direct investment: Financial investment by which a person or an entity acquires a lasting interest in, and a degree of influence over, the management of a business enterprise in a foreign country. (BEA)

forward funding: The provision of budget authority that becomes available for obligation in the last quarter of a fiscal year and remains available during the following fiscal year. This form of funding typically finances ongoing education grant programs. See **budget authority** and **fiscal year;** compare with **advance appropriation, obligation delay,** and **unobligated balances.**

GDI: See **gross domestic income.**

GDP: See **gross domestic product.**

GDP gap: The difference between potential and actual GDP, expressed as a percentage of potential GDP. See **potential GDP.**

GDP price index: A summary measure of the prices of all goods and services that make up gross domestic product. The change in the GDP price index is used as a measure of inflation in the overall economy. See **gross domestic product** and **inflation.**

general fund: One category of federal funds in the government's accounting structure. The general fund records all revenues and offsetting receipts not earmarked by law for a specific purpose and all spending financed by those revenues and receipts. See **federal funds, offsetting receipts,** and **revenues;** compare with **trust funds.**

GNP: See **gross national product.**

grants: Transfer payments from the federal government to state and local governments or other recipients to help fund projects or activities that do not involve substantial federal participation. See **transfer payments.**

grants-in-aid: Grants from the federal government to state and local governments to help provide for programs of assistance or service to the public.

gross debt: See **debt.**

gross domestic income (GDI): The sum of all income earned in the domestic production of goods and services. In theory, GDI should equal GDP, but measurement difficulties leave a statistical discrepancy between the two. (BEA)

gross domestic product (GDP): The total market value of goods and services produced domestically during a given period. The components of GDP are consumption (both household and government), gross investment (both private and government), and net exports. (BEA) See **consumption, gross investment,** and **net exports.**

gross investment: A measure of additions to the capital stock that does not subtract depreciation of existing capital. See **capital** and **depreciation.**

gross national product (GNP): The total market value of goods and services produced during a given period by labor and capital supplied by residents of a country, regardless of where the labor and capital are located. GNP differs from GDP primarily by including the capital income that residents earn from investments abroad and excluding the capital income that nonresidents earn from domestic investment.

inflation: Growth in a general measure of prices, usually expressed as an annual rate of change. See **consumer price index** and **GDP price index.**

infrastructure: Capital goods that provide services to the public, usually with benefits to the community at large as well as to the direct user. Examples include schools, roads, bridges, dams, harbors, and public buildings. See **capital.**

inventories: Stocks of goods held by businesses for further processing or for sale. (BEA)

investment: *Physical investment* is the current product set aside during a given period to be used for future production—in other words, an addition to the stock of capital

goods. As measured by the national income and product accounts, private domestic investment consists of investment in residential and nonresidential structures, producers' durable equipment, and the change in business inventories. *Financial investment* is the purchase of a financial security, such as a stock, bond, or mortgage. *Investment in human capital* is spending on education, training, health services, and other activities that increase workforce productivity. Investment in human capital is not treated as investment by the national income and product accounts. See **capital, inventories,** and **national income and product accounts.**

JCWAA: See **Job Creation and Worker Assistance Act of 2002.**

JGTRRA: See **Jobs and Growth Tax Relief Reconciliation Act of 2003.**

Job Creation and Worker Assistance Act of 2002 (Public Law 107-147): Referred to in CBO reports as JCWAA, it was signed into law on March 9, 2002. The law reduced business taxes by allowing immediate deduction of a portion of capital purchases, increasing and extending certain other deductions and exemptions, and expanding the ability of unprofitable corporations to receive refunds of past taxes paid. The law also provided certain tax benefits for areas of New York City damaged on September 11, 2001, and additional weeks of unemployment benefits to recipients who exhausted their eligibility for regular state benefits. The tax provisions contained varying expiration dates. See **Economic Growth and Tax Relief Reconciliation Act of 2001** and **Jobs and Growth Tax Relief Reconciliation Act of 2003.**

Jobs and Growth Tax Relief Reconciliation Act of 2003 (Public Law 108-27): Referred to in CBO reports as JGTRRA, it was signed into law on May 28, 2003. The law reduced taxes by advancing to 2003 the effective date of several tax reductions previously enacted in the Economic Growth and Tax Relief Reconciliation Act of 2001. The law also increased the exemption amount for the individual alternative minimum tax (AMT), decreased the tax rates for income from dividends and capital gains, and expanded the portion of capital purchases that could be immediately deducted by businesses under the Job Creation and Worker Assistance Act of 2002. The tax provisions contained varying expiration dates. The legislation also provided an estimated $20 billion for fiscal relief to states. See **Economic Growth and Tax Relief Reconciliation Act of 2001** and **Job Creation and Worker Assistance Act of 2002.**

labor force: The number of people age 16 or older in the civilian, noninstitutional population who have jobs or who are available for work and are actively seeking jobs. The civilian, noninstitutional population excludes members of the armed forces on active duty and people in penal or mental institutions or in homes for the aged or infirm. The labor force participation rate is the labor force as a percentage of the civilian, noninstitutional population age 16 or older. (BLS)

labor productivity: See **productivity.**

liquidating account: A budgetary account associated with certain credit programs that includes all cash flows resulting from all direct loan obligations and loan guarantee commitments made under those programs before October 1, 1991. See **credit reform;** compare with **financing account.**

liquidity: The ease with which an asset can be sold for cash. An asset is highly liquid if it comes in standard units that are traded daily in large amounts by many buyers and sellers. Among the most liquid of assets are U.S. Treasury securities.

long-term interest rate: The interest rate earned by a note or bond that matures in 10 or more years.

mandatory spending: See **direct spending.**

marginal tax rate: The tax rate that applies to an additional dollar of income.

means of financing: Means by which a budget deficit is financed or a surplus is used. Means of financing are not included in the budget totals. The primary means of financing is borrowing from the public. In general, the cumulative amount borrowed from the public (debt held by the public) will increase if there is a deficit and decrease if there is a surplus, although other factors can affect the amount that the government must borrow. Those factors, known as other means of financing, include reductions (or increases) in the government's cash balances, seigniorage, changes in outstanding checks, changes in accrued

interest costs included in the budget but not yet paid, and cash flows reflected in credit financing accounts. See **debt, deficit, financing account, seigniorage,** and **surplus.**

monetary policy: The strategy of influencing movements of the money supply and interest rates to affect output and inflation. An "easy" monetary policy suggests faster growth of the money supply and initially lower short-term interest rates in an attempt to increase aggregate demand, but it may lead to higher inflation. A "tight" monetary policy suggests slower growth of the money supply and higher interest rates in the near term in an attempt to reduce inflationary pressure by lowering aggregate demand. The Federal Reserve System conducts monetary policy in the United States. See **aggregate demand, Federal Reserve System, inflation,** and **short-term interest rate.**

NAIRU (nonaccelerating inflation rate of unemployment): The unemployment rate hypothetically consistent with a constant inflation rate. An unemployment rate higher than the NAIRU indicates downward pressure on inflation, whereas an unemployment rate lower than the NAIRU indicates upward pressure on inflation. Estimates of the NAIRU are based on the historical relationship between inflation and the unemployment rate. (CBO's procedures for estimating the NAIRU are described in Appendix B of *The Economic and Budget Outlook: An Update,* August 1994.) See **inflation** and **unemployment rate.**

national income: Total income earned by U.S. residents from all sources, including employee compensation (wages, salaries, benefits, and employers' contributions to social insurance programs), corporate profits, net interest, rental income, and proprietors' income.

national income and product accounts (NIPAs): Official U.S. accounts that track the level and composition of gross domestic product, the prices of its components, and the way in which the costs of production are distributed as income. (BEA) See **gross domestic product.**

national saving: Total saving by all sectors of the economy: personal saving, business saving (corporate after-tax profits not paid as dividends), and government saving (the budget surplus). National saving represents all income not consumed, publicly or privately, during a given period. (BEA) See **national income, net national saving,** and **personal saving.**

natural rate of unemployment: The rate of unemployment arising from all sources except fluctuations in aggregate demand. Those sources include *frictional unemployment*, which is associated with normal turnover of jobs; *structural unemployment*, which includes unemployment caused by mismatches between the skills of available workers and the skills necessary to fill vacant positions; and unemployment caused by such institutional factors as legal minimum wages, the presence of unions, social conventions, or employer wage-setting practices intended to increase workers' morale and effort. See **aggregate demand** and **unemployment rate.**

net exports: Exports of goods and services produced in a country minus the country's imports of goods and services produced elsewhere (sometimes referred to as a trade surplus when net exports are positive or a trade deficit when net exports are negative).

net federal government saving: A term used in the national income and product accounts to identify the difference between federal current receipts and federal current expenditures (including consumption of fixed capital). When receipts exceed expenditures, net federal government saving is positive (formerly identified in the NIPAs as a federal government surplus); when expenditures exceed receipts, net federal government saving is negative (formerly identified in the NIPAs as a federal government deficit). See **national income and product accounts.**

net interest: In the federal budget, net interest comprises the government's interest payments on debt held by the public (as recorded in budget function 900) offset by interest income that the government receives on loans and cash balances and by earnings of the National Railroad Retirement Investment Trust.

net national saving: National saving minus depreciation of physical capital. See **capital, depreciation,** and **national saving.**

NIPAs: See **national income and product accounts.**

nominal: A measure based on current-dollar value. The nominal level of income or spending is measured in current dollars. The *nominal interest rate* on debt selling at par is the ratio of the current-dollar interest paid in any year to the current-dollar value of the debt when it was issued. The nominal interest rate on debt initially issued or now selling at a discount includes as a payment the estimated yearly equivalent of the difference between the redemption price and the discounted price. The *nominal exchange rate* is the rate at which a unit of one currency trades for a unit of another currency. See **current dollar;** compare with **real.**

obligation: A legally binding commitment by the federal government that will result in outlays, immediately or in the future.

obligation delay: Legislation that precludes the obligation of an amount of budget authority provided in an appropriation act or in some other law until some time after the first day on which that budget authority would normally be available. For example, language in an appropriation act for fiscal year 2005 that precludes obligation of an amount until March 1 is an obligation delay; without that language, the amount would have been available for obligation on October 1, 2004 (the first day of fiscal year 2005). See **appropriation act** and **fiscal year;** compare with **advance appropriation, forward funding,** and **unobligated balances.**

obligation limitation: Legislation that reduces existing authority to incur obligations.

off-budget: Spending or revenues excluded from the budget totals by law. The revenues and outlays of the two Social Security trust funds (the Old-Age and Survivors Insurance Trust Fund and the Disability Insurance Trust Fund) and the transactions of the Postal Service are off-budget. As a result, they are excluded from the totals and other amounts in the budget resolution and from any calculations necessary under the Deficit Control Act. See **Balanced Budget and Emergency Deficit Control Act of 1985, budget resolution, outlays, revenues,** and **trust funds.**

offsetting collections: Funds collected by government agencies from other government accounts or from the public in businesslike or market-oriented transactions that are required by law to be credited directly to an expenditure account. Offsetting collections, treated as negative budget authority and outlays, are credits against the budget authority and outlays (either direct or discretionary spending) of the account to which the collections are credited. Collections that result from the government's exercise of its sovereign or governmental powers are ordinarily classified as revenues but will be classified as offsetting collections when the law requires that treatment. See **budget authority, direct spending, discretionary spending, expenditure account,** and **outlays;** compare with **offsetting receipts** and **revenues.**

offsetting receipts: Funds collected by government agencies from other government accounts or from the public in businesslike or market-oriented transactions that are credited to a receipt account. Offsetting receipts, treated as negative budget authority and outlays, offset gross budget authority and outlays in calculations of total direct spending. Collections that result from the government's exercise of its sovereign or governmental powers are ordinarily classified as revenues but will be classified as offsetting receipts when the law requires that treatment. See **budget authority, direct spending, outlays,** and **receipt account;** compare with **offsetting collections** and **revenues.**

other means of financing: See **means of financing.**

outlays: Spending made to pay a federal obligation. Outlays may pay for obligations incurred in previous fiscal years or in the current year; therefore, they flow in part from unexpended balances of prior-year budget authority and in part from budget authority provided for the current year. For most categories of spending, outlays are recorded on a cash accounting basis. However, outlays for interest on debt held by the public are recorded on an accrual accounting basis, and outlays for direct loans and loan guarantees (since credit reform) reflect estimated subsidy costs instead of cash transactions. See **accrual accounting, budget authority, cash accounting, credit subsidy, debt,** and **fiscal year.**

out-year: See **fiscal year.**

pay-as-you-go (PAYGO): A procedure established in the Budget Enforcement Act of 1990 that was intended to ensure that all legislation affecting direct spending or rev-

enues was budget neutral in each fiscal year. Under the procedure, the Office of Management and Budget and CBO estimated the five-year budgetary impact of all such legislation enacted into law. If the total of those estimates in the budget year increased the deficit or reduced the surplus for that year, a PAYGO sequestration—a cancellation of budgetary resources available for direct spending programs—would be triggered. Since September 30, 2002, OMB and CBO are no longer required to provide five-year estimates of laws affecting direct spending and revenues. Although sequestration under the pay-as-you-go procedures would have continued through 2006 on the basis of laws enacted before September 30, 2002, Public Law 107-312 eliminated that possibility by reducing to zero all pay-as-you-go balances. See **Balanced Budget and Emergency Deficit Control Act of 1985, direct spending, fiscal year, revenues,** and **sequestration.**

peak: See **business cycle.**

personal income: See **disposable personal income.**

personal saving: Saving by households. Personal saving equals disposable personal income minus spending for consumption and interest payments. The personal saving rate is personal saving as a percentage of disposable personal income. (BEA) See **disposable personal income.**

point of order: The procedure by which a member of a legislature (or similar body) questions an action being taken, or that is proposed to be taken, as contrary to that body's rules, practices, or precedents.

potential GDP: The level of real gross domestic product that corresponds to a high level of resource (labor and capital) use. (CBO's procedure for estimating potential GDP is described in *CBO's Method for Estimating Potential Output: An Update,* August 2001.) See **gross domestic product, inflation, potential output,** and **real.**

potential labor force: The labor force adjusted for movements in the business cycle. See **business cycle** and **labor force.**

potential output: The level of production that corresponds to a high level of resource (labor and capital) use. Potential output for the national economy is also referred to as potential GDP. (CBO's procedure for estimating potential output is described in *CBO's Method for Estimating Potential Output: An Update,* August 2001.) See **inflation** and **potential GDP.**

present value: A single number that expresses a flow of current and future income (or payments) in terms of an equivalent lump sum received (or paid) today. The calculation of present value depends on the rate of interest. For example, if $100 is invested on January 1 at an annual interest rate of 5 percent, it will grow to $105 by January 1 of the next year. Hence, at an annual 5 percent interest rate, the present value of $105 payable a year from today is $100.

primary surplus: See **surplus.**

private saving: Saving by households and businesses. Private saving is equal to personal saving plus after-tax corporate profits minus dividends paid. (BEA) See **personal saving.**

productivity: Average real output per unit of input. *Labor productivity* is average real output per hour of labor. The growth of labor productivity is defined as the growth of real output that is not explained by the growth of labor input alone. *Total factor productivity* is average real output per unit of combined labor and capital inputs. The growth of total factor productivity is defined as the growth of real output that is not explained by the growth of labor and capital. Labor productivity and total factor productivity differ in that increases in capital per worker raise labor productivity but not total factor productivity. (BLS) See **capital input.**

program account: Any budgetary account associated with a credit program that receives an appropriation of the subsidy cost of that program's loan obligations or commitments as well as, in most cases, the program's administrative expenses. From the program account, the subsidy cost is disbursed to the applicable financing account. See **credit subsidy** and **financing account.**

real: Adjusted to remove the effects of inflation. *Real output* represents the quantity, rather than the dollar value, of goods and services produced. *Real income* represents the power to purchase real output. *Real data* at the finest level of disaggregation are constructed by dividing the

corresponding nominal data, such as spending or wage rates, by a price index. Real aggregates, such as real GDP, are constructed by a procedure that allows the real growth of the aggregate to reflect the real growth of its components, appropriately weighted by the importance of the components. A *real interest rate* is a nominal interest rate adjusted for expected inflation; it is often approximated by subtracting an estimate of the expected inflation rate from the nominal interest rate. Compare with **current dollar** and **nominal.**

real trade-weighted value of the dollar: See **trade-weighted value of the dollar.**

receipt account: An account established within federal funds and trust funds to record offsetting receipts or revenues credited to that fund. The receipt account typically finances the obligations and outlays from an associated expenditure account. See **federal funds** and **trust funds;** compare with **expenditure account.**

recession: A phase of the business cycle extending from a peak to the next trough and characterized by a substantial decline in overall business activity—output, income, employment, and trade—of at least several months' duration. As a rule of thumb, though not an official measure, recessions are often identified by a decline in real gross domestic product for at least two consecutive quarters. (NBER) See **business cycle, gross domestic product,** and **real;** compare with **expansion.**

reconciliation: A special Congressional procedure often used to implement the revenue and spending targets established in the budget resolution. The budget resolution may contain *reconciliation instructions*, which direct Congressional committees to make changes in revenues or direct spending laws under their jurisdictions to achieve a specified budgetary result. The legislation to implement those instructions is usually combined into one comprehensive *reconciliation bill*, which is then considered under special rules. Reconciliation affects revenues, direct spending, and offsetting receipts but usually not discretionary spending. See **budget resolution, direct spending, discretionary spending, offsetting receipts,** and **revenues.**

recovery: A phase of the business cycle that lasts from a trough until overall economic activity returns to the level it reached at the previous peak. (NBER) See **business cycle.**

revenues: Funds collected from the public that arise from the government's exercise of its sovereign or governmental powers. Federal revenues consist of individual and corporate income taxes, excise taxes, and estate and gift taxes; contributions to social insurance programs (such as Social Security and Medicare); customs duties; fees and fines; and miscellaneous receipts, such as earnings of the Federal Reserve System, gifts, and contributions. Federal revenues are also known as federal governmental receipts. Compare with **offsetting collections** and **offsetting receipts.**

risk premium: The additional return that investors require to hold assets whose returns are more variable than those of riskless assets. The risk can arise from many sources, such as the possibility of default (in the case of corporate or municipal debt), or the volatility of interest rates or earnings (in the case of corporate equities).

S corporation: A domestically owned corporation with no more than 100 owners who have elected to pay taxes under Subchapter S of the Internal Revenue Code. An S corporation is taxed like a partnership: it is exempt from the corporate income tax, but its owners pay income taxes on all of the firm's income, even if some of the earnings are retained by the firm.

saving rate: See **national saving** and **personal saving.**

savings bond: A nontransferable, registered security issued by the Treasury at a discount and in denominations from $50 to $10,000. The interest earned on savings bonds is exempt from state and local taxation; it is also exempt from federal taxation until the bonds are redeemed.

seigniorage: The gain to the government from the difference between the face value of minted coins put into circulation and the cost of producing them (including the cost of the metal used in the coins). Seigniorage is considered a means of financing and is not included in the budget totals. See **means of financing.**

sequestration: The cancellation of budgetary resources available for a fiscal year in order to enforce the discre-

tionary spending limits or pay-as-you-go procedures in that year. The process was first established in the Balanced Budget and Emergency Deficit Control Act of 1985. A discretionary spending sequestration would be triggered if the Office of Management and Budget determined that budget authority or outlays provided in appropriation acts exceeded the applicable discretionary spending limits. Spending in excess of the limits would cause the cancellation of budgetary resources within the applicable category of discretionary programs. A pay-as-you-go sequestration would be triggered if OMB determined that recently enacted legislation affecting direct spending and revenues increased the deficit or reduced the surplus. An increase in the deficit or reduction in the surplus would cause the cancellation of budgetary resources available for direct spending programs not otherwise exempt by law. On September 30, 2002, the discretionary spending caps and the sequestration procedure to enforce those caps expired, and OMB (and CBO) were no longer required to record the five-year budgetary effects of legislation affecting direct spending or revenues. Although sequestration under the pay-as-you-go procedure would have continued through 2006 on the basis of laws enacted before September 30, 2002, Public Law 107-312 eliminated that possibility by reducing to zero all pay-as-you-go balances. See **direct spending, discretionary spending limits,** and **pay-as-you-go.**

short-term interest rate: The interest rate earned by a debt instrument (such as a Treasury bill) that will mature within one year.

standardized-budget deficit or surplus: The level of the federal budget deficit or surplus that would occur under current law if the economy operated at potential GDP. The standardized-budget deficit or surplus provides a measure of underlying fiscal policy by removing the influence of cyclical factors. (CBO) See **deficit, fiscal policy, potential GDP,** and **surplus;** compare with **cyclical deficit or surplus.**

structural deficit or surplus: Same as **standardized-budget deficit or surplus.**

Subchapter S corporation: See **S corporation.**

subsidy cost: See **credit subsidy.**

surplus: The amount by which the federal government's total revenues exceed its total outlays in a given period, typically a fiscal year. The *primary surplus* is that total surplus excluding net interest. See **outlays** and **revenues;** compare with **deficit.**

10-year Treasury note: An interest-bearing note issued by the U.S. Treasury that is to be redeemed in 10 years.

three-month Treasury bill: An interest-bearing security issued by the U.S. Treasury that is to be redeemed in 91 days.

total factor productivity: See **productivity.**

trade deficit: See **net exports.**

trade-weighted value of the dollar: The value of the U.S. dollar relative to the currencies of U.S. trading partners, with the weight of each country's currency equal to that country's share of U.S. trade. The real trade-weighted value of the dollar is the trade-weighted value of the dollar that takes account of the difference between U.S. price inflation and price inflation among U.S. trading partners. An increase in the real trade-weighted value of the dollar means that the price of U.S.-produced goods and services has increased relative to the price of foreign-produced goods and services.

transfer payments: Payments made to an individual or organization for which no current or future goods or services are required in return. Federal transfer payments include Social Security and unemployment benefits. (BEA)

trough: See **business cycle.**

trust funds: In the federal accounting structure, trust funds are accounts designated by law as trust funds (regardless of any other meaning of that term). Trust funds record the revenues, offsetting receipts, or offsetting collections earmarked for the purpose of the fund, and budget authority and outlays of that fund financed by those revenues or receipts. The federal government has more than 200 trust funds. The largest and best known finance major benefit programs (including Social Security and Medicare) and infrastructure spending (the Highway and the Airport and Airway Trust Funds). See **offsetting col-**

lections, offsetting receipts, outlays, and **revenues;** compare with **federal funds.**

underlying rate of inflation: The rate of inflation of a modified consumer price index for all urban consumers that excludes from its market basket the components with the most volatile prices: food and energy. See **consumer price index** and **inflation.**

unemployment gap: The difference between the nonaccelerating inflation rate of unemployment (NAIRU) and the unemployment rate. See **NAIRU.**

unemployment rate: The number of jobless people who are available for work and are actively seeking jobs, expressed as a percentage of the labor force. (BLS) See **discouraged workers** and **labor force.**

unilateral transfers: Official and private payments from the United States to sources abroad and from sources abroad to the United States, where the payments are not made in exchange for goods or services—for instance, a private gift sent abroad, a pension payment from a U.S. employer to a foreign resident, or taxes paid to the United States by people residing abroad.

unobligated balances: The portion of budget authority that has not yet been obligated. When budget authority is provided for one fiscal year, any unobligated balances at the end of that year expire and are no longer available for obligation. When budget authority is provided for a specific number of years, any unobligated balances are carried forward and are available for obligation during the years specified. When budget authority is provided for an unspecified number of years, the unobligated balances are carried forward indefinitely, until either they are expended or rescinded, the purpose for which they were provided is accomplished, or no disbursements have been made for two consecutive years. See **budget authority;** compare with **advance appropriation, forward funding,** and **obligation delay.**

user fee: Money charged by the federal government for federal services or for the sale or use of federal goods or resources that generally provide benefits to the recipients beyond those that may accrue to the general public. The amount of the fee is related to the cost of the service provided or the value of the good or resource used. In the federal budget, user fees can be classified as offsetting collections, offsetting receipts, or revenues. See **offsetting collections, offsetting receipts,** and **revenues.**

WFTRA: See **Working Families Tax Relief Act of 2004.**

Working Families Tax Relief Act of 2004 (Public Law 108-311): Referred to in CBO reports as WFTRA, it was signed into law on October 4, 2004. The law retains JGTRRA's acceleration of the tax reductions originally phased in under EGTRRA and extends numerous other provisions of the Internal Revenue Code that had expired, or were set to expire, including the research and experimentation tax credit, parity in the application of certain mental health benefits, and the increased share of rum excise tax revenues that is paid to Puerto Rico and the U.S. Virgin Islands. In addition, the law establishes a uniform definition of a "qualifying child" for determining taxpayers' filing status and eligibility for certain tax credits and exemptions. See **Economic Growth and Tax Relief Reconciliation Act of 2001** and **Jobs and Growth Tax Relief Reconciliation Act of 2003.**

yield: The average annual rate of return on a security, including interest payments and repayment of principal, if it is held to maturity.

yield curve: The relationship formed by plotting the yields of otherwise comparable fixed-income securities against their terms to maturity. Typically, yields increase as maturities lengthen. The rate of that increase determines the "steepness" or "flatness" of the yield curve. Ordinarily, a steepening (or flattening) of the yield curve is taken to suggest that short-term interest rates are expected to rise (or fall). See **short-term interest rate.**